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FREE TRADE AND PROTECTION.

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FREE TRADE

AND

PROTECTION.

AN INQUIRY INTO THE CAUSES WHICH HAVE RETARDED THE GENERAL ADOPTION OF FREE TRADE SINCE ITS INTRODUCTION INTO ENGLAND.

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BY

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THIRD EDITION.

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PREFACE TO THE THIRD EDITION.

DURING even the short time that has elapsed since the first edition of this book was published, many events have happened which show that Protection is gaining increased support not only on the Continent but in many of our own Colonies. In Germany there appears to be every probability that protective duties much more onerous than those now in operation will be imposed, and the people of Canada have declared by an overwhelming majority in favour of a protectionist policy. A tariff, most reactionary in its character, has just been submitted to the Canadian Legislature. Extremely high protective duties are to be imposed on almost every manufactured article. The protectionists of the United States will in all probability demand, as a set-off to these higher duties, the imposition of increased duties on produce imported from Canada; and thus a disastrous war of tariffs will be commenced between the two countries. The long continuance of industrial depression in England, and the greater impediments which are thrown in the way of English goods finding free access to

foreign markets, are perhaps not unnaturally making many Englishmen, whose faith in Free Trade has hitherto been unshaken, begin to waver in their allegiance to the principles of unrestricted commerce. The opinion is certainly gaining ground, that although Free Trade is an excellent thing if all countries are prepared to adopt it, yet a country is bound in self-defence to protect herself against the injury which other countries may inflict upon her by a policy of restriction or exclusion. It therefore becomes the more important to show, that although we might be perfectly justified in adopting any means which would ward off the loss we have to suffer from the protectionist tariffs of other countries, yet it is impossible for us to impose retaliatory duties, or to carry out what is called a policy of Reciprocity, without indefinitely aggravating the losses which we now have to bear. The ready acceptance of the principles of Protection under some such guise as Reciprocity shows, that even in England Free Trade has not obtained so firm a hold as is sometimes supposed; and the truth of this is shown in a perhaps more striking manner by the eagerness with which the doctrines of Protection are supported by Englishmen who emigrate to the Colonies. The same man who in Lancashire or Yorkshire is a thorough free trader goes to Australia or Canada, and, being surrounded by a different set of economic circumstances, often becomes in a few years an ardent protectionist.

April, 1879.

PREFACE TO THE FIRST EDITION

In the autumn of last year I delivered at Cambridge a course of Lectures on Free Trade and Protection. One of the chief objects I had in view was to endeavour to explain the causes which have retarded the progress of Free Trade, and which have enabled Protectionists still to occupy so strong a position on the Continent, in America, and in many of our Colonies. I first thought of publishing these Lectures almost in the form in which they were delivered; but I afterwards came to the conclusion that it would be better, for many reasons, to adopt a different arrangement, and I have consequently divided the book into six chapters.

I have had occasion frequently to refer to Mr. Frederick Martin's *Statesman's Year Book*, and I have also derived great assistance from the admirably-arranged *Statistical Abstracts* which are published annually by the Board of Trade. Whenever I have required additional information bearing on the subjects to which these Abstracts refer it has always been most readily supplied to me by two

gentlemen holding official positions at the Board of Trade —Mr. Edwin J. Pearson, and Mr. Robert Giffen, the well-known economist and statist. I desire here to acknowledge their kindness, and to offer them my sincere thanks.

I also wish to say how much I appreciate the assistance I have derived from my wife, who has revised the book as it was passing through the press, and from my Secretary, Mr. F. J. Dryhurst, who has not only acted as my amanuensis, but who has constantly aided me in various ways, and has prepared a summary of contents, which I believe will prove useful for purposes of reference.

May 1878.

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FREE TRADE AND PROTECTION.

FREE TRADE AND PROTECTION.

CHAPTER I.

INTRODUCTORY REMARKS.

THE chief object I have in view in the following pages is to endeavour to explain the causes which in recent years have not only retarded the general adoption of free trade, but have in many countries given a fresh vitality to the doctrines of protection. The subject I think requires careful explanation, for we have to account for the fact that although it is admitted that England during the last thirty years has derived the most marked advantages from the adoption of a free-trade policy, yet most countries seem as disinclined to abandon protection as if the free-trade experiment in England had failed as signally as it has succeeded. Not only in countries where protection has been long established is there this disinclination to follow the example set by England, but even in new countries, such as Australia, there is constantly displayed an eagerness to introduce protection in one or other of its various forms. Competent authorities have, in fact, predicted that the leading political question in Australia during the next few years is not unlikely to be a keen struggle for supremacy between the advocates of free trade and protection. The strong position which is now occupied in many countries by protection has surprised no less than disappointed those who have been the leading advocates of free trade in England. Nothing could exceed

the confidence with which it was predicted that when England had once enjoyed the advantages of unrestricted commerce, other countries would be led to follow her example by the irresistible force of self-interest. During the memorable debates which took place thirty years since, when the financial reforms of Sir Robert Peel were before Parliament, it was again and again unhesitatingly asserted that all commercial countries would soon be eagerly striving to share with England the advantage of buying in the cheapest, and selling in the dearest market. Even as recently as 1860, when the French commercial treaty was on the eve of ratification, its author declared that "nothing would be able to withstand the moral contagion of the example of England and France acting together on the principles of free trade;" and he predicted that the stimulus thus given to free trade "would extend far beyond the limits of the two countries." Instead of these anticipations being realised it would seem that the renewal of the commercial treaty with France and the establishment of similar treaties with other countries will now have to contend with even more opposition from protectionists than had to be encountered when that treaty was first proposed.

I think it desirable thus to direct special attention to the firm hold which protectionist doctrines have obtained in many countries, because nothing is more likely to retard the cause of free trade than to underrate the strength of the forces which are arrayed against it, and to ignore the circumstances on which its opponents rely for support. It is unfortunate that in discussing the subject English free-traders frequently adopt a tone which is not calculated to convince those who differ from them. When protectionists are spoken of as if they were either solely prompted by a desire to sacrifice the welfare of the community in order to promote their own selfish ends, or when they are derided as the victims of economic fallacies so transparent that they ought not to mislead a child, it should be remembered that it is not many

years since the great majority of the English people were ardent protectionists, and the fallacies for which we now feel so much contempt were unhesitatingly accepted by many of the most eminent of our countrymen. Less than forty years ago Lord Melbourne, who was then Prime Minister, declared in the House of Commons, with the cordial approval of the great majority of those whom he addressed, that "during his long life it had been his lot to hear many mad things proposed, but the maddest of all the mad things to which he had ever had to listen was a proposal to abolish the corn laws." Sir James Graham was a statesman who had the reputation of possessing great practical sagacity and much shrewd common sense. A deputation from Manchester waited upon him in 1840 to urge the repeal of the corn laws, and in reply to their arguments he said that "If the corn laws were repealed great disasters would fall upon the country, that the land would go out of cultivation, that Church and State could not be upheld, that all our institutions would be reduced to their primitive elements, and that the people we were exciting would pull down our houses about our ears."[1] It cannot, I think, be denied that those who endorsed this sweeping declaration in favour of protection were not less misled by economic fallacies than are the protectionists of the present day. All the most effective arguments that can now be urged in favour of free trade had many years previously been stated with the most admirable clearness and force by Adam Smith, Ricardo, and other economists. In the pages of these writers are to be found many passages which furnish the best reply that can be made to the modern opponents of free trade. It may however be no doubt fairly urged that although little has of late been added to the theoretical arguments which can be advanced against protection, yet emancipation from the doctrines of this system was far more difficult before free trade had been tried, and that the striking success of

[1] *Cobden and the League*, by Mr. Henry Ashworth, of Bolton, p. 42.

the experiment in England ought to render a ready acceptance of the true principles which should regulate the commerce between nations indefinitely more easy. It should, however, be remembered that the adoption of free trade in England was powerfully promoted by circumstances of so purely exceptional a character that they do not now exist in any country where a protectionist tariff either has been, or is proposed to be, introduced. Between England and the countries which now maintain protection there is this fundamental distinction. In England it was agricultural produce that was most carefully protected, whereas in Continental countries, in America, and in the Colonies at the present time, it is home manufacturing industry that is most zealously shielded against foreign competition. In England, therefore, protection made such a first necessary of life as bread, dear; whereas protection in those countries where it now exists increases the price of such commodities as wearing apparel and various articles of household furniture. It at once, therefore, becomes evident that a force of popular indignation could be brought against the maintenance of protection in England which cannot be brought against it in America and Australia. In a period of scarcity and of popular distress such as existed in England in 1843-45 the appeal in favour of free trade became irresistible. Every one who was suffering the pangs of hunger, every one who was pinched by want could be told, "Bread is made dear, and starvation is brought upon you because the cheap wheat which foreign countries eagerly wish to send you is refused admittance to your ports." No such plea in favour of free trade can be brought home to the people of the United States. It may be impressed upon them that they pay a needlessly high price for various manufactured commodities; that cloth, linen, shoes, hardware, and innumerable other articles are made dearer by protection; but having to pay a higher price for a coat, a shirt, or a hat, can never arouse the same popular indignation as when, in time of scarcity, the

people find themselves deprived of the food they urgently need.

It no doubt may be said that protective duties were not in England solely imposed on agricultural produce, for when Sir Robert Peel propounded his free-trade policy, more than a thousand articles were subjected to import duties, many of which were protective in their character. It is, however, clearly shown by the tone of the discussions at the time that the free-trade movement in England derived its chief impulse from the direct influence exerted by protection in raising the price of food. In the protracted debates in the House of Commons, speech after speech was made both by the opponents and the supporters of free trade, in which no reference was made to any other subject but the repeal of the corn laws. Sir Robert Peel again and again vainly tried to place the discussion on a wider basis by reminding Parliament that he proposed not simply to carry out the principle of free trade in reference to the importation of corn, but that he also intended to repeal every other protective duty. In the political history of our country it has been repeatedly shown that what is refused to reason is not unfrequently conceded to fear. Many, like Sir Robert Peel himself, who for so long had turned a deaf ear to the most cogent arguments that were adduced in favour of free trade, might have remained unconvinced and unconverted, had not a threatened famine in Ireland made them quail before the responsibility of maintaining a system which, by lessening the supplies of food, would have added to the number of those who were suffering the horrors of starvation. A short time before the abolition of protection there seemed to be every reason to suppose that the struggle might be long continued. The protectionist party had a large majority in both Houses of Parliament, and even of those who were not classed as protectionists a considerable number supported some modified form of protection, such for instance as an 8*s*. fixed duty on corn. The ultimate success of the free-trade movement in

England was no doubt greatly assisted by the zeal and ability displayed by those who advocated the cause; but without in the slightest degree detracting from the services rendered by the prominent leaders of the agitation, it must be remembered that a speaker or a writer who desires at the present time to convince the American or Australian people of the injurious effects of protection has to employ very different illustrations, has to use very different arguments, and has to make very different appeals from those which thirty years ago exercised such irresistible influence in England. The belief became at that time firmly implanted in the public mind that the very hour protection was abolished food would become cheaper, and that so far as the great mass of the people were concerned, the blessing of this increased plenty would be accompanied by no qualifications, by no counter-balancing disadvantages. I shall have occasion to show that in consequence of a difference in economic circumstances the arguments now to be advanced in favour of free trade must be very different on the Continent, in America, and in the Colonies to what they were in England thirty years ago.

However great may be the ultimate advantages which free trade would confer, it is too often forgotten that when a great number of different manufactures have been artificially fostered, and have been forced into a kind of unnatural existence through protection, much suffering and loss may be caused to those who are engaged, either as employers or employed, in these particular industries, if the support they have derived from protection is withdrawn. There are no doubt many who will not agree in the opinion just expressed, for it is often maintained that the abolition of protection is sure to bring an increase of prosperity to those trades which are protected. It will not, I think, be difficult hereafter to show that this opinion is erroneous. It is, in fact, one of those instances which frequently occur of an economic principle being stated with too much generalisation, and without

the necessary qualifications. It is thus often asserted that the introduction of a new machine must prove beneficial to the labourer. In one sense this no doubt is true, for probably on no portion of the community does the extended use of machinery ultimately confer so much advantage as on the labourer. Numerous examples, however, might be given from which it would be at once seen that the invention of a new machine has inflicted a real and severe loss upon some special class of labourers. The primary result of a mechanical invention is that it enables some industrial process to be mechanically performed which has previously required the exercise of manual skill. This skill can often only be acquired after a long and expensive training, and those who possess it are virtually the owners of property, the pecuniary value of which can be estimated by the extra wages which they receive when compared with the wages which are paid to the ordinary unskilled workman. It has, for instance, been stated that many of those who were most skilled among the Sheffield file-grinders have been able to earn as much as 6*l.* a week. Suppose a machine is invented which cuts files as well as they were previously cut by hand. The workman will then find that the necessity for his special skill has been altogether superseded. It therefore ceases to possess any pecuniary value. He will have to seek some employment in which he will have no exceptional advantage which will enable him to claim unusually high wages, and it will not improbably happen that he may be unable to earn more than half the wages which he had previously obtained. Great therefore as may be the advantage conferred on a community by the extended use of machinery in adding to the productiveness of labour and capital, it is well not to lose sight of the fact that the labourers whose special skill is superseded by a mechanical invention may have to bear a loss as real as if the owner of an estate should suddenly find his land deprived of half its natural fertility.

When investigating the causes which induce such powerful

support to be given to the continuance of protection in America and other countries, I think it can be shown that the opposition to the adoption of a free-trade policy is to a considerable extent prompted by motives very analogous to those which have often induced the workmen employed in some special trade to resist the introduction of a new machine. The advocate of free trade, it will be pointed out, has often a peculiar difficulty to encounter, because the more striking and complete the advantages which would result from the abolition of protection in any particular industry, the greater the inducement offered to all those engaged in this industry to resist the change. Thus in order to bring into the strongest relief the loss which protection inflicts on a nation, some instance may be selected where the circumstances of a country are so unfavourable for the carrying on of a particular industry that it would not exist at all if it were not secured against foreign competition by protective duties. In consequence of the productive salt mines possessed by England it is probable that all the salt which the French consume would be obtained from this country, and not a pound of salt would be manufactured in France, if extremely high protective duties were not imposed on the importation of salt into that country. If, therefore, these duties were abolished the manufacture of salt in France would cease to exist as an industry, and those who are engaged in it, either as masters or workmen, would have to bear the loss and inconvenience which always accompany the transfer of capital and labour from one employment to another. In countries which maintain a system of protection there are always many industries, the existence of which, like the manufacture of salt in France, depends upon the continuance of protection. Any proposal therefore to abolish protection not unnaturally excites the combined opposition of all those who are concerned in these industries. Their opposition, prompted by self-interest, can hardly be expected to be removed, but, on the contrary, is not unfrequently

increased, by the very strength of the facts which are adduced in favour of free trade. Thus it has been stated by the well-known American economist Mr. D. A. Wells that the people of the United States have to pay, in consequence of the protective duties on imported steel, such a needlessly high price for the steel rails they use, that it would be a remunerative expenditure if these protective duties were abolished, and if, out of state funds, the existing Bessemer steel works were purchased and then closed, those employed in them receiving a pension in the way of compensation. Those, however, who have an interest in these works know perfectly well that they would have no chance of obtaining such compensation, and consequently the more they hear about the great reduction in price which would result from the free importation of steel, the more they become impressed with the loss which would be inflicted upon them, and consequently their opposition is intensified rather than appeased. I think we are able thus at least in part to understand why free trade has made such slow progress in those countries where protection has been long established, and where consequently it is supposed that many branches of industry depend upon the continuance of the system not only for their prosperity, but in many cases for their very existence.

Another phase, however, of the present protectionist movement seems at first sight more difficult to explain. Allusion has already been made to the strong support which is given to protection, and to the adoption of its principles, in many of our colonies. It may with reason be said, "It is possible to understand why in a country in which protection has long existed there should be many people prompted by a feeling of self-interest to advocate its maintenance; but how does it happen that in Australia, for instance, which has been mainly peopled by those who have emigrated from free-trade England, there should be so wide-spread a feeling in favour of protection?" Considerable encouragement has no doubt been given to colonial protectionists by the

opinions which have been expressed by some eminent economists, that the imposition of a protective duty with the view of promoting a new industry in a recently settled country may be justified as a temporary expedient. I shall not only have occasion to examine the theoretical arguments that are advanced in support of this opinion, but I think very conclusive facts may be adduced which show that the industries which are thus protected are ultimately injured rather than benefited. Enterprise and self-reliance are sure to be disastrously weakened if whenever some vicissitude in a trade occurs those who are engaged in it are taught to seek a remedy in higher protective duties. Moreover, all experience shows that although these protective duties are plausibly defended as a temporary expedient, yet, when they have been once imposed, they have never afterwards been voluntarily surrendered. From the moment any trade is protected a powerful vested interest is created, which is at once ready to combine with all the other protected interests in the country to resist any attempt to restore commercial freedom.

Amongst other circumstances which probably cause protection to find favour in a young colony there is one to which, as I believe it has attracted little notice, it will be desirable here briefly to refer. A large portion of the population of such a country as Australia is composed of those who have emigrated from England. Amongst these emigrants there are sure to be many who will discover that they cannot find the same kind of employment as that to which they have been accustomed. An intending emigrant would of course act more wisely if, before leaving, he ascertained whether he was likely to obtain any suitable work in the country in which he proposed to settle. These precautions, however, are often entirely neglected. When intelligence was first brought to this country that rich deposits of gold had been discovered in Australia, thousands who had never done a day's out-door work eagerly rushed to

the gold-fields. As time went on it was discovered that the gold-digger's lot was by no means so desirable a one as it was supposed to be; his labour was severe; he had to endure many hardships; he had often to suffer much exposure; and although, here and there, there was one who by some stroke of good fortune quickly became rich, yet the gold-digger did not on the average obtain an exceptionally high remuneration for his labour. Under these circumstances it is evident that Australia presented a favourable field for the growth of protection. Those who before they had emigrated from England had been employed as operatives or artizans in some manufactory or workshop would be sure soon to find that they were unsuited for such work as gold-digging. They would naturally therefore welcome any proposal to establish through the aid of protective duties some kind of industry similar to that in which they had been employed before they emigrated. A prospect would thus be offered to them of obtaining work to which they had been accustomed, and they would again be able to turn to advantage any special skill which in previous years they had acquired.

I trust it will not be supposed that if I thus attempt to consider the causes which now give so much strength to the protectionist movement, I desire in the slightest degree to defend the system, or to palliate the mischief it produces. I am sure, however, it is important that the arguments which are at the present time advanced in favour of protection should be fairly stated and carefully considered, because I think it cannot be denied that the progress of free trade has been materially retarded by its advocates assuming a too contemptuous tone towards the supporters of protection in other countries. We in England are much too prone to overstate the results of free trade. Scarcely a week elapses without its being said, as if it were a triumphant rejoinder to all that is urged by the American, the Continental, or the Colonial protectionist, "English exports and imports have

more than quadrupled since protection was abolished; the income of the country, as shown by the yield of the income-tax, has more than doubled, wages have advanced, and population has increased." But a moment's consideration will show that other causes have been in operation besides free trade to promote this wonderful growth of prosperity. Amongst others that might be enumerated it is sufficient here to mention, that about the same time that protection was abolished our railway system was developed, steam was more largely used as a motive power in almost every branch of industry, and the discovery of gold in Australia gave a powerful stimulus to emigration. Again, it should be remembered that the financial reforms which were carried out when free trade was introduced into England produced other very important results besides eradicating protection from our fiscal system. Up to that time the plan had been tenaciously adhered to, of raising revenue from almost every article of foreign produce that was imported. In 1845 import duties were levied upon no less than 1142 separate articles. Of the duties which were thus imposed only those could be considered protective which placed the foreign producer at a disadvantage compared with the home producer. A large number of the articles imported, such as tea, coffee, chicory, sugar, and wine, are not produced in England, and consequently the duties which were imposed upon them could not be protective in their character. When it is remembered that the duties on all these 1142 articles have, with barely a dozen exceptions, been repealed—our customs' revenue being now almost entirely raised from five articles, tea, coffee, tobacco, spirits, and wine—it at once becomes evident that the incalculable advantages resulting from the financial reforms which were carried out in England thirty years since cannot be solely attributed to the abolition of protection. A considerable part of the benefit which has resulted is due to the simplification of our fiscal system, which was secured by the repeal of such a large number of duties.

Nothing seems to me more certain than that in discussing the position of protection at the present time something more is required than perpetual appeals to the rapidity with which commerce has grown and wealth has been accumulated in England. Our opponents will not be thus convinced, for they have a reply ready at hand which they are not slow to use. The French protectionist may, for instance, say, "What justification is there for assuming either that England is so much more prosperous, or is so much more wealthy than France? In England a greater number of very large fortunes may have been accumulated, but the well-being of a country is not to be estimated by the extent to which wealth is aggregated; it is rather to be measured by the extent to which it is diffused amongst the community. In England it is notorious that those who are employed in tilling the land are as a class so poor that they live from hand to mouth; they have seldom saved sufficient to maintain themselves for a single week. The French peasantry as a class not only often own the land they cultivate, but are the possessors of so much capital, that at the conclusion of the late Franco-German war the indemnity loan of two hundred millions sterling, which at first it was supposed would severely strain the resources of France, might have been entirely obtained from the savings of her rural population."

In like manner American and other protectionists may adduce statistics to show the increase of wealth which has taken place under the protectionist tariffs imposed in their own countries. No useful conclusion therefore can be arrived at by arraying the prosperity of one country against that of another. A country may be so circumstanced, its people so prudent and temperate, its soil so fertile, its system of land tenure economically so advantageous, its climate so favourable, that protection may be powerless to arrest, although it impedes its progress. I shall endeavour to show that protection has always and must always exercise this

impeding influence, and that great as is the prosperity which is undoubtedly enjoyed by many countries which maintain protection, they would enjoy still greater prosperity if their labour and capital, untrammelled by any artificial restrictions, were freely permitted to be directed to those industries where they could be employed with maximum efficiency.

Although scarcely any one could now be found in England who would express doubt as to the great advantages which free trade confers, yet at the present time indications may not unfrequently be observed which seem to show that there are many among us who still imperfectly understand the real nature of the benefits produced by free trade. There are, for instance, many English merchants and manufacturers who apparently consider that an injustice is done to them, and that an injury is inflicted on English commerce, if England persists in a free-trade policy whilst various products of her industry are excluded from foreign markets by protective duties. At many chambers of commerce resolutions have been lately passed in favour of a policy of reciprocity. The chairman of one of the most important of these bodies not long since, referring to the probability that the importation of English goods into France would be still further discouraged by an increase in the existing protective duties, inquired whether under the circumstances the English Government ought not to discourage the importation of French goods into England by the imposition of duties, for instance, on such an article as French silk. And another member of the chamber soon afterwards declared, that "one-sided free trade was an absurdity." As there is reason to believe that the opinions thus expressed are largely shared by many English capitalists and labourers, I shall hope in a subsequent chapter to show that, however great the injury inflicted on English industry by the protective tariffs of other countries, this injury would not be lessened, but would, on the contrary, be most seriously aggravated, by a policy of retaliation.

It is the more important to re-state the arguments in favour of commercial freedom because even in England amongst some of those who would desire to be considered the strongest supporters of free trade a tendency is not unfrequently shown to favour some form of industrial restriction. For many years past few economic questions have excited so much interest in America and Australia as the proposal to restrict or prohibit the immigration of Chinese labourers. This immigration of Chinese labourers has not, however, been discussed as a question involving purely economic considerations, because those who have urged that this immigration should be discouraged have always maintained that they are influenced by social and moral, and not simply by economic, considerations; that their antipathy to the Chinese is not simply prompted by a desire to maintain a high rate of wages by resisting the influx of cheap labour, but that they object to the Chinese because they do not wish to see their country overrun by an inferior race. Recently, however, in our own country the importation of labour has been opposed on grounds which will enable the subject to be considered as a purely economic one. Certain workmen, exercising a right which they undoubtedly possess, have lately declined to work for the wages which their employers offer. The employers, finding that Germans were willing to work for these wages, at once decided to employ them. No one can for a moment suppose that any moral disadvantage can result from the settlement amongst us of a certain number of German workmen. There is nothing in the German character which can justify Englishmen in saying that they dread being brought into contact with it. In discussing the subject therefore as one involving purely economic considerations, we shall have to inquire whether it is possible, consistently with the principles of industrial freedom, to justify any interference with this importation of labour. It has often been said that the very essence of free trade is contained in the maxim of buying in

the cheapest and selling in the dearest market. But is this perfect freedom to buy and sell to be denied to those who have labour to dispose of? The industry of a country is, like a complicated machine, composed of many parts, one of which, if touched, may affect the working of all the rest. The denial of the right to obtain labour on the most favourable terms does not simply affect the employers and the employed who may be parties to the dispute. If in consequence of employing more expensive labour than that which could otherwise be procured the cost of building a house should be increased by 50*l.*, he who lives in that house, whether as owner or as tenant, is just as certainly taxed, is just as effectually prevented obtaining a commodity on the cheapest terms, as is the French householder who, through the imposition of a protective duty, is compelled to pay twice as much as he otherwise would for every pound of salt he consumes.

I have thought it desirable in these introductory remarks to indicate some at least of the many subjects which will be embraced in the inquiry into which I propose to enter, because it may not unnaturally be thought that a discussion on free trade and protection can be little else than the exposure of fallacies the unsoundness of which has again and again been explained. I hope I have already said enough to show that there is no question at the present time connected with political economy which has a more real or living interest.

CHAPTER II.

PROTECTION.

PART I.—*Bounties on Exports.*

THE chief advantage which protectionists claim for the system they support is that it gives encouragement and assistance to native industry. Protection was defended in England, and is still defended in the countries where it is maintained, on the ground, that various home industries would inevitably decline if, unaided by protective duties, they had to contend against foreign competition. Although this desire to protect the home trader against his foreign rival may no doubt be regarded as the chief cause why protectionist tariffs have been maintained, yet many duties, which have been most protective in their character, were in the first instance imposed not with any idea of encouraging native industry, but with the very different object of securing what is called a "favourable balance of trade." Until a period which is marked by the publication of Adam Smith's *Wealth of Nations*, it was almost universally assumed that the advantage or disadvantage which foreign commerce conferred upon a country was solely to be measured by the extent to which her stock of the precious metals was either increased or diminished. If the goods which a country imported exceeded in value those which were exported, then a balance was due from her to the countries with which she traded. Money consequently had to be transmitted abroad to adjust this balance; as it was supposed that the country was rendered so much poorer

by the money which was thus sent away, it was thought to be an object of first importance that this flow of money should be checked, and, if possible, turned in an opposite direction. The encouragement of exports and the discouragement of imports consequently became the guiding principle of the commercial policy of every country, because the more exports were increased and the more imports were diminished the greater would be the amount of money which would have to be received, and the less would be the amount which would have to be paid. One of the most general methods which was adopted for encouraging exports and discouraging imports was to give a bounty on exports, and to impose heavy duties on imports. Those who sent produce abroad were considered to be such benefactors of their country that the money of the State could be well and fairly spent in rewarding them. Those, on the other hand, who imported produce would have to send money to foreign countries in payment for this produce. They consequently were regarded as concerned in transactions which would lead to national impoverishment; it was therefore considered expedient to impede, by the imposition of duties or in any other way, the trade in which they were engaged. But the policy having been once adopted of granting bounties on exports, and of imposing restraints on imports, with the view of creating a favourable balance of trade, it gradually came to be seen that other consequences resulted from thus encouraging exports and impeding imports. It was considered that by adopting such a policy two distinct advantages would be secured. In the first place, native industry would be assisted; and secondly, the trade of foreign countries would be impeded. The home trader who received a bounty on the goods he exported might be enabled to undersell his foreign competitors in their own markets; whilst import duties, if made sufficiently high, would effectually keep out foreign competition from the home market. Commerce was so generally looked upon as

a struggle between rival countries whose interests were assumed to be entirely antagonistic, that to impede the industrial development of foreign nations was supposed to be scarcely less important than to aid the prosperity of home trade. Even at the present time there are many who still apparently think that it is to the direct interest of their own country that other nations should not prosper. It will, in fact, be shown when considering the arguments which are now advanced in support of protection, that the only logical basis on which the system can rest is the assumption that a conflict is being perpetually waged between countries which trade with each other, and that it is not less important in this industrial war than it would be in a struggle for military supremacy, to adopt every expedient in order to weaken the resources of the enemy.

The policy of protection is now so generally carried out by the imposition of import duties, that the subject of protection is not unfrequently discussed without any special reference being made to the protective influence which may be exerted by the granting of bounties on exports. In past times, however, these bounties played a very important part in the commercial policy of many countries, and even in recent times the granting of bounties, although it has been to a great extent discontinued, has not been entirely given up. It is well known that at the present day the French government give a bounty on the export of sugar from that country, with the object of encouraging the cultivation of beet-root, and promoting the manufacture of sugar. The subject, therefore, not only has an historical interest, but is one of so much practical importance that it will be desirable to direct attention to it. Adam Smith[1] says:—"Bounties upon exportation are, in Great Britain, frequently petitioned for, and sometimes granted to the produce of particular branches of domestic industry. By means of them our merchants and manufacturers, it is pretended, will

[1] *Wealth of Nations*, Book iv. chap. 5.

be enabled to sell their goods as cheap or cheaper than their rivals in the foreign market. A greater quantity, it is said, will thus be exported, and the balance of trade consequently turned more in favour of our own country." Although these bounties were petitioned for and granted on the ground that they would promote a favourable balance of trade, which at the time was supposed to constitute an advantage for the entire nation, yet there are clear indications that those who thus petitioned for these bounties were not solely influenced by an anxiety for the national weal. The spirit of protection can be distinctly traced in the policy which was then advocated; for in the same chapter of the *Wealth of Nations* from which the above passage has been quoted, it is stated that manufacturers and other traders greatly favoured these bounties, because they not only enabled surplus stocks to be disposed of to foreigners, but through their agency prices in the home market were maintained at a high level. In numerous instances bounties were granted on the export of the very articles on which, when imported, high protective duties were imposed. A remarkable example of this is afforded by the high bounties which were for many years in England granted on the export of corn, at the time when its importation was restricted by the levying of onerous duties. It therefore happened that in years when there was a bountiful harvest, those who had corn to sell were bribed, at the public expense, to send it abroad; and in years of scarcity the general public were prevented buying the food which they urgently needed, and which other countries were willing to sell them, in order that those might be benefited who were interested in the maintenance of a high price for corn. It is impossible to devise any arrangement which would inflict a greater amount of injustice and suffering on a community. In the first place, the encouragement which was given to the sending of surplus corn abroad in good seasons left the country with a smaller accumulated

store with which to meet times of scarcity. Secondly, bounties, by increasing the demand for corn, increased its price to the home consumers, who were thus in this unfortunate position: they were taxed in order to raise the price of the food they consumed. It thus appears that the country was not only, through the operation of these bounties, placed in a more unfavourable position to meet the difficulties which had to be encountered in seasons of scarcity, but these difficulties were also greatly increased in consequence of food being made artificially dear through the restraints which were imposed on the importation of corn.

Although, therefore, it is evident that this system of granting bounties on exports, accompanied, as it was, with restraints upon imports, must have inflicted an incalculable amount of suffering on the nation, yet the policy was not, as we have seen, forced on a people unwilling to receive it; but, on the contrary, we are told that the Government was constantly petitioned, by those engaged in various trades, to favour them with a bounty. As this system of granting bounties is still maintained in France and other countries, it becomes of practical importance to inquire what is the general effect of these bounties, not only upon the countries in which they are granted, but on those countries to which the produce receiving the bounty is exported. Adam Smith has said that when a bounty was granted to any particular trade, those who were engaged in it considered that they were favoured by a special advantage. As it seems that the same opinion still prevails in countries where the system of bounties is continued, it will be desirable to ascertain what is the precise effect upon those who are concerned in the production of any particular commodity, the export of which is stimulated by bounties. This may be shown by tracing the effect of granting a bounty on the export of sugar from France. It is the more desirable to consider this particular example, because at the present time this is by far the most important industry which receives a bounty; and

also, because as beet-root, from which sugar is made in France, is largely grown in France, the case will afford an opportunity of considering the influence exercised by a bounty, both upon a manufacturing and an agricultural industry.

Owing to the complicated and indirect way in which this bounty is received, there is a great divergence of opinion with regard to the amount which is annually expended upon it. The French Government allege that the bounty involves a charge on their revenue of about 360,000*l.*, whereas the English sugar refiners assert that the annual charge is not less than 750,000*l.*, or 800,000*l.* If a certain fixed sum were simply given on each ton of sugar exported, the amount of the charge would, of course, be at once known. The bounty is, however, received in such an indirect manner, that there is considerable difficulty in calculating its exact amount. A duty is in France charged on raw sugar in proportion to its estimated yield of refined sugar. In order, however, to encourage the French sugar-refining industry, the Government give a drawback on refined sugar, when it is exported, which is professed to be equivalent to the duty imposed on raw sugar. If the refiner received as a drawback upon the refined sugar which he exported an amount exactly equivalent to the duty which he paid on the raw sugar, it is obvious that he would receive no bounty on export, he would obtain from the Government no more than he had paid them. It is, however, alleged that the duties are calculated on such a basis, that the drawback which is given on the refined sugar exported, exceeds by about ten per cent. the amount which is paid on the raw sugar. The duty is very high, being nearly equivalent to the value of the sugar, and it is calculated that the bounty, which is in this way given, amounts to about 3*s.* per cwt.[1] Such a bounty represents at least 10 per cent. of the value of the sugar

[1] See paper read by a leading English sugar refiner, Mr. George Martineau, at the Brighton meeting of the Social Science Association, 1875.

exported. The French sugar manufacturers would of course be great gainers if they could appropriate to themselves the whole of this bounty; for in addition to the ordinary current rate of profit on the sugar which they sell for home consumption, they would obtain, as extra profit, ten per cent. on the entire amount which was sold for export. Such a business would evidently be so exceptionally remunerative, that each sugar manufacturer would eagerly strive to appropriate to himself as much as possible of the business so peculiarly lucrative. The result of this struggle must inevitably be to force down the price of the sugar exported; for the manufacturer would still be a considerable gainer if he obtained on each ton of sugar exported, 5*s.* more than if the sugar were sold at home. The effect of the bounty must, therefore, be to enable England and other foreign countries to purchase French sugar at a considerably lower price.' 'This reduction in price will approximate to the amount of the bounty. The competition of the French sugar manufacturers amongst themselves will prevent them obtaining a larger profit on the sugar which is exported than upon that which is sold for home consumption; consequently the bounty, which is given by the French Government on the export of sugar, although intended to promote the prosperity of the French sugar trade, is really almost entirely spent in enabling the English people and others, who use French sugar, to enjoy the advantage of purchasing it at considerably below cost price. The French Government really act as if, prompted by a generous desire to make a gift to their foreign neighbours, they said to the sugar manufacturers in France: If you will sell to the English people and other foreigners, such a useful article as sugar at considerably less than its cost price, we will compensate you by a Government grant for any loss which you may have to bear.

By thus artificially stimulating the export of sugar from France, the French sugar trade is no doubt extended, and

the demand for French beet-root and other materials, out of which sugar is made, is increased. But when considering any attempts that may be made either by bounties on exports, or by restraints on imports, to give an artificial encouragement to any particular trade, it cannot be too distinctly borne in mind that it is impossible permanently to secure an exceptionally high rate of profit to any branch of industry, unless free admission to it is barred, and those who are engaged in it enjoy the privileges of a close monopoly. In every commercial country there are always many who, possessing a large amount of floating capital, are constantly looking out for a lucrative investment; and water is not more certain to find its level than is this capital to flow into those channels where it can be used with the greatest advantage. If, therefore, by giving such a bounty as that on French sugar, it should be supposed that an amount equivalent to the bounty were added to the profits of a particular class of traders, there would be an eager rush of those who had capital to employ, to share in the exceptional gains yielded by this favoured branch of industry. There could be no certainty that this flow of capital would be kept within due control, and it might not improbably happen that those who were engaged in the trade on which the bounty is given would find that, instead of being a privileged class who are enjoying special advantages, the profits of their business had been reduced below the average rate owing to the excessive amount of capital that had been attracted to it.

The price of the article, the export of which is stimulated by a bounty, will no doubt be generally raised; and this has probably led to the belief that bounties are particularly advantageous to the special class of traders who obtain them. Even Adam Smith when referring to the bounties which in his time were given on corn, speaks as if farmers were specially benefited by the price of agricultural produce being maintained at a high level. It can, however, be shown that whenever the price of an article is artificially

raised, either by encouraging exports or discouraging imports, the higher price does not represent an increased rate of profit, but is nothing more than a bare compensation given to the trader, because he has to carry on his industry at a greater cost. It has been already explained that capital is sure to be drawn to any trade which is supposed to yield an unusually high rate of profit; and thus the force of competition being ever present to exercise an equalising influence, will prevent a larger return being realized from those trades which are protected, than from other industries carried on in the same country. When the corn laws were in operation in England, corn no doubt was made extremely dear; but it will be subsequently shown that in no period were the English tenant-farmers in a more depressed condition. During the period of the corn laws, committees were again and again appointed by Parliament to inquire into the causes of agricultural distress, and it was then proved that as prices rose, rents were advanced. Not only did this increase of rent absorb all the advantage which the farmers might have derived from the high prices which were created through protection, but a most serious injury was inflicted upon them by the very legislation which was presumably passed in their interest. The effect of the corn laws in raising prices was over-estimated; rents were calculated on a basis of high prices, which in the average of years were not maintained; and farmers consequently were unable to pay the rents which had been agreed upon. The only class, therefore, who can permanently profit from any particular produce being made artificially dear, are those who own the land on which the produce is grown, and not those who either rent it, or those who use the produce as the raw material of some manufacture. Thus the stimulus which is given to the export of French sugar by the present bounty may, by increasing the demand for beet-root from which this sugar is so largely made, increase its price, and thus additional value may be

given to the land on which the beet-root is grown. But the gain which is in this way secured by a special class, is purchased at the expense of the entire French nation. The whole community is, in fact, doubly taxed. In the first place, the bounty, whether it costs 750,000*l.*, or only 360,000*l.* a year, still represents a very serious charge which has to be borne by the entire body of French tax-payers. This charge, however, large though it is, can only be regarded as a portion of the burden which is thrown upon them; for if sugar is raised as little as a farthing a pound in France by this forced export, and this is a very moderate estimate, the additional price, which the French will be compelled to pay for their sugar, cannot be less than 1,000,000*l.* a year.

The chief results that are secured by the imposition of this onerous fine, are first, that more of the land, capital, and labour of France, are devoted to the growing of beet-root than would otherwise be the case, and the value of the land, suitable for the growth of beet-root, is somewhat enhanced; secondly, that French sugar is sold at a lower rate in England and other countries, than it otherwise would be.

It would certainly seem that we should be the last to complain if the French are willing thus to tax themselves for our benefit. The English sugar refiners have, however, repeatedly endeavoured to induce our Government to interpose on their behalf, and to protect them against French competition by imposing on French sugar an import duty, which would neutralize the effect of the bounty. Considerable injury is no doubt inflicted on English sugar refiners by the French being bribed by their Government to sell sugar in the English market at a price which without a State subvention would not prove remunerative. If, however, we once embark on the policy of protecting a special trade against the harm which may be done to it by some other country adopting an unwise fiscal policy, we should soon find ourselves involved in a labyrinth of commercial restrictions, and our tariff would become as protectionist as is the

tariff of the most protectionist country. We occasionally hear of iron being imported into England from Belgium, and of cotton goods being sent to us from America. Our ports are freely open to receive any quantity of these products which America or Belgium may be willing to send us; and yet our manufacturers find that they cannot export a single ton of iron to Belgium, or a single bale of cotton goods to the United States, without the payment of import duties. If, therefore, English sugar refiners were protected against the competition of cheap French sugar, English iron-masters and English cotton manufacturers would be able to put forward an unanswerable claim to be secured against the competition of their foreign rivals. It usually happens that we, as a nation, obtain no compensating advantage for the injury which is done us by the protectionist tariffs of other countries. It can no doubt be shown that those who maintain these tariffs inflict a far greater injury upon themselves than they do upon us; but it cannot be denied that the English suffer, as a nation, by the commercial restrictions of other countries. When, however, the encouragement to home industry, which is supposed to be the main object of protection, is secured, not by imposing restraints on imports, but by granting bounties on exports, the loss which such a policy entails does not extend beyond the country which adopts it. England, as we have seen, gains, as certainly as France loses, by the bounty on French sugar; and as long as France is willing to tax herself for our benefit, why should we refuse to accept the advantage which is offered to us? We should be simply giving a new sanction to protection if the import of cheap sugar from France were impeded, with the view of causing such an advance in the price of sugar as would make the trade of sugar-refining in England adequately remunerative.

PART II.—*Restraints on Imports.*

IN proceeding to consider the effects which are produced by imposing protective duties on imports, it will be necessary, in the first instance, to point out the very important difference there is between an import duty which is imposed for purposes of revenue, and one which is maintained with the view of protecting some home industry against foreign competition. A country can obtain a very large portion of its revenue, as England does at the present time, from import duties, without there being a trace of protection in its fiscal system. The import duties which are levied in England may be divided into two classes. First, duties are imposed on articles which are not produced in the country itself, such as tea and coffee; secondly, duties are levied on some article, such as malt or spirits; an excise duty exactly equivalent to this import duty being imposed on English-made malt and spirits. When an import duty only corresponds to an excise duty of the same amount, it is evident that the foreign and the home producer are placed in a position of equality, and the import duty cannot be regarded as protective.

It has been sometimes maintained that even an import duty which comes within the first of these two classes, gives, under certain circumstances, an advantage to the home trader, and thus assumes a protective character. If there are two articles used for similar purposes, and if the one which is imported is taxed, and the other, which is a product of home industry, is untaxed, the import duty undoubtedly would exert a protective influence, because, by making the article which is imported dearer, it would discourage its use, and would, *pro tanto*, give an advantage to the product of home growth. Thus if in England the malt duty were repealed, and beer consequently became untaxed, and if at the same time an import duty were levied

on wine, such a duty might be regarded as protective; because wine which was taxed might often come into direct competition with beer which was untaxed. Such an objection, however, cannot be raised to import duties as they are levied in England. English and foreign-made spirits are taxed at the same rate; and the foreign countries which send us tea, coffee, and wine, cannot complain that these articles are placed at a disadvantage in the English market because they have to compete with English-made beer which is more lightly taxed. The malt duty is certainly quite as high an *ad valorem* tax as the import duty which is levied upon tea and foreign wines. However careful a country may be to remove all traces of protection from its fiscal system, yet it is impossible to prevent an import duty causing some loss and inconvenience to the countries from which any particular article liable to such a duty is exported. If tea were admitted into England duty free, there would of course be a reduction in its price. The consumption of tea in England would consequently considerably increase; and China, the East Indies, and other countries which supply us with tea, would undoubtedly obtain a somewhat better price for tea owing to this increased demand. Although, therefore, all import duties, even if they are not protective, must be disadvantageous to the countries from which the articles are exported which are subjected to duties, yet there is this fundamental and important distinction between an import duty which is imposed for purposes of revenue, and one which is maintained with the object of giving protection to home industry. In the former case, the object those have in view who impose the duty, is to encourage importation; because the greater the importation, the larger is the revenue obtained. In the second case, the object being to discourage importation, the smaller the amount of revenue obtained, the more completely will the purpose of the duty have been achieved. In the entire tariff of the United States there is probably

no import duty which is considered to be more entirely successful than that which is levied on imported copper. This duty so completely defeats foreign competition, that the quantity of copper imported into the United States is so insignificant, that the duty[1] in 1869 only yielded 30,683 dols. It has been calculated that the Government really obtains no revenue at all from the duty, because these 30,000 dols. are supposed to provide a very inadequate compensation for the increased price which the Government pays for the copper used in the navy yards and other State departments.

It is evident that the home trader, independently of any aid that he may derive from protective duties, must always in his own market enjoy an advantage which may be regarded as conferring upon him a kind of natural protection; because the cost of carriage is necessarily a more important factor in the price of foreign than of home produce. Thus if it cost 30*s.* a ton to send iron from England to Chicago, and only 10*s.* a ton to send it there from the iron districts of Pennsylvania, it is evident that if English iron were admitted duty free into the United States the American ironmasters would still have a great advantage in their own markets. Suppose iron were sold for 5*l.* a ton at Chicago; the English would not be able to obtain one penny a ton more for their iron because of the greater expense to which they had been subjected in bringing it from so great a distance. Consequently, of the 5*l.* which the English receive for a ton of iron, only 70*s.* would be paid for the iron: the remaining 30*s.* would represent cost of carriage. The American ironmaster, however, only having to pay 10*s.* a ton for cost of carriage, would receive 90*s.* for each ton of iron which he sold; he therefore would virtually obtain 20*s.* more for every ton of iron than his English competitor; and this might be sufficient amply to

[1] See the essay in the Cobden Club *Essays*, 1871-2, called "A Chapter in Politico-Economic History," by the Hon. David A. Wells.

compensate him for having to pay higher wages or for any other circumstance which might make the cost of producing iron in America greater than in England. I have thought it desirable to describe the advantage which the home trader thus derives from this natural protection, because it will be necessary to refer to the subject when considering the arguments which are advanced in support of protective tariffs.

In proceeding to consider the effects produced by import duties imposed for purposes of protection and not for revenue, it will be important carefully to distinguish between the influence exerted by a protective duty on the country in which it is imposed, and the influence it exerts on the countries from which the produce subject to the duty is exported.

In the introductory chapter allusion was made to the fact that whereas agricultural produce used to be most carefully protected in England, protective duties are now chiefly employed in other countries, to secure various branches of manufacturing industry against foreign competition. Although, therefore, it may appear to be at the present time of most practical importance to trace the effects of protecting manufacturing industry, yet there are many reasons why it is desirable to commence the inquiry by considering the consequences of imposing protective duties on the importation of agricultural produce. Manufacturing and agricultural industry are so inextricably intertwined that it is impossible to protect the one without exercising a considerable influence on the other. Thus it has been shown that the owners of land, on which beet-root is grown, are far more affected by the bounty which is now given in France on the export of sugar than are the manufacturers of sugar, although it is their industry which the bounty is particularly intended to foster. A brief description of some of the consequences which were produced in England by the protection which was given to agriculture

will enable us more clearly to understand the effects which result from the protective duties which are now maintained on various branches of manufacturing industry in France, Germany, America, and other countries.

It has already been explained that protection may be regarded as the natural outgrowth of the mercantile system. Exports were encouraged and imports discouraged with the primary object of securing a favourable balance of trade. It was soon, however, perceived that this policy could be made to serve another purpose; for it was evident that by thus increasing the foreign demand for any particular product, and imposing difficulties in the way of a supply being obtained from abroad, a double influence was brought into operation to raise its price. It used to be almost universally supposed that to maintain a high level of prices was the most certain way to secure industrial prosperity. Thus it was thought that the dearer agricultural produce became, the more advantageous it would be for farmers, landowners, and all who were concerned in the cultivation of the land. The agricultural interest in the last century was able to exercise a predominant influence in the English legislature; and consequently agriculture obtained, to a far larger extent than any other industry, what was then regarded as the boon of protection. It has already been shown how public money was spent to procure, through bounties, a high price for corn in those plentiful seasons when there was a surplus to be exported; and when seasons were not so favourable, such effectual precautions were taken to prevent the agricultural interest being deprived of the advantage of high prices, that Adam Smith tells us that in his time when corn was below a certain price, its importation was entirely forbidden, and that even in seasons of moderate plenty the duties on corn amounted to prohibition. With regard to the importation of other articles of food still greater solicitude was shown, to secure for the agricultural interest the high prices resulting from a strict monopoly. No live stock

and no fresh meat were permitted to be imported; and for many years English farmers and English landowners were so terrified, even at the competition of Ireland, that no Irish cattle were allowed to be sent to England. So mischievous was it considered that the people should use any butter that was not produced in England, that although butter might be imported to serve as grease for machinery, yet the Custom House authorities were strictly enjoined to thrust a stick covered with tar through every firkin of imported butter, and thus render it useless for food. Endless were the ramifications of injustice into which the legislature were led in their desire to protect English agriculture from foreign competition. No sooner was it seen that cotton goods would be largely used than a demand arose that British wool and flax should be protected from such an encroachment.[1] Accordingly, in 1721, a law was passed imposing a penalty of 5*l.* on the wearer, and 20*l.* on the seller, of a piece of calico. Fifteen years later, calicoes manufactured in Great Britain were allowed to be worn, "provided that the warp thereof was made entirely of linen yarn." In 1774, printed calicoes subjected to a duty of 3*d.* a yard, were allowed to be worn. This duty was raised to 3½*d.* in 1806. Raw cotton was at the same time subjected to a heavy import duty. The persistent attempts which were thus made to impede the manufacture of cotton in England afford a striking example of the mischief which a protective policy is liable to produce. It is impossible for the wisest statesmen to foresee what will be the course of national industry; from motives of mistaken patriotism, misled by the prevalent theories in favour of protection, English statesmen, for more than a hundred years, for the sake of securing a high price for home-grown wool and flax, put most serious impediments

[1] Much interesting information on these and kindred subjects is contained in a book to which I have already referred, entitled *Cobden and the League*, by Mr. Henry Ashworth, of Bolton.

in the way of the progress of the cotton manufacture in this country, which has since become one of the largest and most important of our national industries.

During the closing years of the last, and the commencement of the present century, the foreign trade of England was so much impeded by war, so many ports were closed from which she could have obtained food and other commodities, that prices, especially of agricultural produce, were for many years maintained at an unusually high level. When, therefore, peace was concluded in 1815, the agricultural interest became alarmed. Ports which had been closed were re-opened; prices, it was said, would rapidly fall, and more protection was consequently demanded. The enactments known as the Corn Laws were then passed in deference to the claims thus put forward by those interested in agriculture. The high prices they had obtained in consequence of the war, they now endeavoured to retain through the agency of protective duties. It was therefore enacted that no importation of wheat should be permitted until it had reached the price of 80*s.* a quarter in the English market, and a proportionately high price was fixed for the exclusion of other grain. These regulations continued in operation, without any material alteration, until 1828, when the sliding scale was introduced. The principle of the sliding scale was to increase the import duties on wheat in proportion to its cheapness in the English market, and thus it was supposed that a high level of prices would be permanently maintained.

When the average price of wheat was 73*s.* the duty was 1*s.* a quarter.

,,	,,	,,	72*s.*	,,	2*s.* 8*d.*	,,
,,	,,	,,	62*s.*	,,	24*s.* 8*d.*	,,
,,	,,	,,	56*s.*	,,	30*s.* 8*d.*	,,
,,	,,	,,	46*s.*	,,	40*s.* 8*d.*	,,
,,	,,	,,	36*s.*	,,	50*s.* 8*d.*	,,

One of the great evils associated with the sliding scale was the extreme uncertainty which it threw over the foreign

wheat trade. Thus if when wheat was at 73*s.* a quarter in England, a merchant purchased wheat in Odessa at 65*s.* a quarter, and paid 5*s.* a quarter for its carriage to England, he might find that, before he could sell it, wheat had fallen in price to 62*s.* a quarter. He would not only lose 8*s.* a quarter owing to this fall in price (this may be considered as the natural and inevitable risk connected with trade), but his loss would be at once quadrupled, owing to the sliding scale; because, instead of having to pay a nominal duty of 1*s.* a quarter, he would have to pay a duty of 24*s.* 8*d.* A merchant would not incur this enormous risk, unless he received an adequate compensation. Wheat consequently would not be imported unless it could be purchased in the foreign market at such a price as would, on the average of transactions, leave a margin sufficient not only to yield the ordinary trade profit and to pay the cost of carriage, but also to provide a fund which might be regarded as an insurance to cover the loss of having to pay a largely increased duty.

After the description which has just been given of the various regulations which, during more than a century, were put in force in England with the object of securing a high price for agricultural produce, it must be admitted that if the welfare of an industry depended upon the protection it enjoyed, those who were engaged in English agriculture ought to have been among the most prosperous of the community. I will, therefore, proceed to inquire into the influence which was exercised by this protection and by the high prices it produced, upon the three classes concerned in agriculture, namely landowners, farmers, and labourers. It will be easy to show that these high prices were of no permanent advantage either to farmers or to labourers; that the extra price which was secured for agricultural produce was appropriated by the landowners in the form of higher rents; that neither the profits of the farmer, nor the wages of the labourer, were increased; but, on the contrary, the capital

and the labour, which were applied to the cultivation of the land, participated in that general diminution of productiveness with which the entire capital and labour of the country were stricken in consequence of the impediments which were thrown in the way of the nation's industry. When the corn law was passed in 1815, the farmers were confidently told that a beneficent legislature had ordained that wheat would never be less than 80*s.* a quarter. A glowing description of agricultural prosperity was given, in which the farmers, selling their wheat at 80*s.* a quarter in all seasons, would be the worthy recipients of increasing wealth which would be largely shared by a happy and thriving peasantry. When the sliding scale was introduced, the farmers were once more told that they had been secured a high price for their corn, and that they could always reckon on obtaining 64*s.* a quarter for their wheat. During the thirty years between 1815 and 1845, when the corn laws and the sliding scale were in operation, agriculture, instead of enjoying this promised prosperity, was in a state of exceptional depression. Within this time no less than five committees of the House of Commons were appointed to investigate the causes of agricultural distress. From the evidence given before these committees it was conclusively shown that the high price of agricultural produce had yielded no extra profits to the farmer and no extra wages to the labourer, but that it had been absorbed in increased rents. In fact the corn laws and the sliding scale instead of having conferred any advantage upon the farmers, had caused them a most serious loss. The confident opinions that were expressed at the time the corn laws were passed, that the price of wheat would be maintained at 80*s.* a quarter, caused land to be re-valued, and rents to be re-adjusted on the supposition that farmers would always sell their corn at this price. It was soon found that those who passed these laws had considerably over-estimated the influence they would exercise on prices, and consequently the farmers quickly

discovered that the chief result to them of the legislation from which they had expected so much benefit, was that they had entered into engagements to cultivate land at a rent which they could not possibly afford to pay. This fact powerfully contributed to the success of the free trade agitation in England. The fate of protection was inseparably bound up in this country with the corn laws; and the corn laws were doomed from the moment when the farmers could be made to see that these laws, instead of increasing their profits and conferring on them advantages which other men of business did not enjoy, had been used by landowners and their agents to induce them unwarily to agree to pay rents which proved their ruin.

In July, 1843, a meeting was held at Colchester in support of the repeal of the corn laws, and a strenuous effort was made to convert the meeting into an important protectionist demonstration. The proceedings of that meeting showed that protection was about to be successfully attacked in its stronghold, for the farmers who had hitherto been its most devoted advocates, were at length beginning to perceive that whatever protection might have done for others it had not profited them. The greatest importance was at the time attributed to this meeting. All the agricultural associations of Essex had combined to secure a triumph for the protectionist party. The entire county had been canvassed by the leading landowners, and by the rural clergy. On the day of meeting the farmers assembled in such great numbers that it was supposed even by the advocates of free trade that a resolution in favour of protection would be carried by a large majority. As the proceedings went on the opinion of the meeting seems to have been so completely changed, that a resolution was ultimately passed in favour of free trade by a majority of two to one. This result was chiefly brought about by a speech from Mr. Cobden, who in various ways appealed to the farmers honestly to confess whether they had been made more

prosperous by protection. He quoted with great effect the evidence which had been given by several Essex farmers before one of the numerous parliamentary committees which had inquired into the causes of agricultural distress. They all agreed in the opinion that rents had been so high since the corn laws and the sliding scale had been in operation, that the farmers had as a body been unable to pay their way, and that they had been steadily diminishing their capital and adding to their arrears of rent.

With this decline in the prosperity of the farmer and with this decrease in the amount of capital which he could afford to employ in the cultivation of the land, it was inevitable that there should be a marked deterioration in the condition of the agricultural labourer. There probably never was a time when the rural labourer was in a more deplorable condition. With the diminution in the farmers' capital the demand for labour decreased. The general trade of the country had become so paralysed that there was no outlet for the unemployed labour which was steadily accumulating in the rural districts. Wages consequently were reduced to a minimum; often not more than 7*s.* or 8*s.* a week could be earned, and the greatest distress prevailed in the rural districts.

In thus referring to the depressed condition in which the farmers and their labourers were at the time when the corn laws and the sliding scale were in operation, it must not be supposed that there was no other cause besides protection for this agricultural distress. The old poor law remained in operation until 1834, and the encouragement it gave to every form of improvidence powerfully contributed to lower the condition of the labouring population. Its pauperising influence was specially felt in the rural districts, and the miserable state of dependence and poverty to which the agricultural labourers were reduced, is probably to be attributed quite as much to its agency as to the impediments which protection caused to industrial prosperity. Again, with regard to the position of the farmers under protection,

it is obvious that their depressed condition, to which reference has just been made, cannot be fairly considered as a necessary consequence of the corn laws and of the sliding scale. The effect which these restrictions would have in maintaining the price of corn at a high level, was overestimated, and consequently rents were fixed so high as to prove disastrous to the farmers. If there had been no attempt to give protection to agriculture, this excessive rise in rents would have been avoided; yet the fact that rents were excessive was undoubtedly due to the impossibility of estimating what would be the effect on the price of corn which these restrictions on importation would produce. It is however abundantly clear that rents were adjusted in strict accordance with what was supposed would be the average price of corn. General economic considerations would lead to the conclusion that this is the inevitable course which would be adopted. If, with an advance in agricultural prices, rents remained unaltered, the returns of the farmer would necessarily be largely increased. The exceptional profits which he would enjoy would attract other capitalists. Farms would be eagerly competed for and rents would rise. This competition and the rise in rents would continue until the extra rent paid neutralized any advantage which had for a time been derived from the rise in prices. During the interval which would elapse before competition would be able to exercise its full influence the farmers would be enjoying extra profits. They would consequently be anxious to employ as much labour as possible; the demand for labour would increase, and wages would advance. But this advance could only be temporary; the extra profits which prompted the increased demand for labour would, as has been shown, be rapidly absorbed in higher rents; even if this were not the case the general competition of the labour market would prevent labour employed in agriculture receiving an exceptionally high remuneration; just in the same way as the competition of

capital seeking employment will prevent the rate of profit in any particular industry being abnormally high.

It therefore appears that the effect of producing by protection a rise in the price of agricultural produce, is to cause an advance in rents. This rise in price is however powerless permanently to secure either for the farmer or the labourer, any exceptional advantages. The remuneration which they respectively receive must ultimately be determined by the general rates of profit and of wages prevailing in other branches of industry. In order therefore to ascertain the ultimate consequences to the farmer and to the agricultural labourer of raising the price of agricultural produce by the imposition of protective duties, it will be necessary to explain the influence which such a rise of prices will exert on the general industrial economy of the country. If by making food and other agricultural produce dearer, the general remuneration of capital and labour is increased, the farmers and their labourers must share the advantage with the rest of the community, and there will be an advance both in agricultural profits and in agricultural wages. If, on the contrary, it can be shown that by making food dearer, every industry is carried on under greater difficulties, and labour and capital become generally less productive, then the farmers and their labourers will not be able to escape the loss caused by this decline in industrial prosperity, and the returns to their capital and labour will be diminished. It can, I think, be conclusively shown that the inevitable consequence of making food dear must be to diminish the productiveness both of labour and capital, and that in all industries including agriculture there will be a decline both in profits and wages. It is not more certain that the returns to industry will be lessened by making food artificially dear, than it is that the efficient working of a machine will be impeded if unnecessary obstacles are thrown in the way of its free movement. Suppose for instance that by restricting importation, bread, butter,

cheese, and other such articles of general consumption were all made forty per cent. dearer; a labourer would find that what he was before able to purchase for 5*s.* now cost him 7*s.* In this event one of two things must occur. If his wages are not advanced in consequence of this rise in the price of food, a most serious loss will be inflicted upon him. His wages though nominally the same as before, are really greatly reduced, for he finds that all that portion of his wages which he spends in procuring food and the other articles which are made artificially dear, has lost a considerable part of its purchasing power. The loss which will be thus inflicted on him will be more serious than that which others will have to bear; but it can be readily shown that the injury which is done to the labourers, will spread far and wide over the rest of the community. Consider for instance how the trade of the manufacturer will be affected. If a labourer has to pay 7*s.* instead of 5*s.* for food, so much less will be left to him to lay out in clothes and other articles which he is accustomed to purchase. In all the most important manufacturing industries of a country, it is the outlay of the masses of the people which constitutes the chief demand. If they have less to spend there will be a serious falling off in the demand; trade will become depressed, profits will decline, and the injury thus inflicted both on capital and labour will go on accumulating; for with this decline in profits there will be less inducement to invest capital in business; wages will consequently be reduced and the sufferings of the labourer will be aggravated, for he will find that instead of receiving higher wages to compensate him for the increasing dearness of food, his wages are steadily declining with the diminution of his employer's profits.

In case it should be supposed that this description of the effect of making food artificially dear is merely an imaginary one, deduced from theoretical considerations, it may be well to call attention to some facts illustrative of the general

economic condition of England during the thirty years when the corn laws and the sliding scale were in operation, and when the policy of giving protection to agriculture was in its fullest vigour. The period to which I refer was a time of profound peace. That disastrous rivalry in military armaments, which was inaugurated with the establishment of the second empire in France, had not commenced; the national expenditure was at its lowest point; and yet during these thirty years, between 1815 and 1845, there was absolutely no development in the trade of the country. In 1841 the exports were about fifty-one millions a year, the precise amount at which they stood a quarter of a century previously. Reference has already been made to the depressed condition of agriculture, and to the fact that during the thirty years that the corn laws were in operation, five parliamentary committees were appointed to inquire into the causes of agricultural distress. During the thirty years since 1845, agriculture has had no protection; and although there have been times when unpropitious seasons caused losses to farmers, yet on no single occasion has the general condition of agriculture been such as to call for a parliamentary inquiry. But depressed as was the condition of agriculture during the continuance of the corn laws, the general trade of the country was, if possible, in a more unsatisfactory position. The following description is a faithful record, by a contemporary observer, of the condition of the country in 1841, when Sir Robert Peel took office:—"The distress had now so deepened in the manufacturing districts as to render it clearly inevitable that many must die, and a multitude be lowered to a state of sickness and irritability from want of food; while there seemed no chance of any member of the manufacturing classes coming out of the struggle at last with a vestige of property, wherewith to begin the world again. The pressure had long extended beyond the interests first affected; and, when the new ministry came into power, there seemed to be no class that was not threatened with

ruin. In Carlisle, the Committee of Inquiry reported that a fourth of the population was in a state bordering on starvation—actually certain to die of famine, unless relieved by extraordinary exertions. In the woollen districts of Wiltshire the allowance to the independent labourer was not two-thirds of the *minimum* in the workhouse." . . . . "In Stockport, more than half the master spinners had failed before the close of 1842: dwelling-houses, to the number of 3,000, were shut up; and the occupiers of many hundreds were unable to pay rates at all. Five thousand persons were walking the streets in compulsory idleness; and the Burnley guardians wrote to the Secretary of State that the distress was far beyond their management; so that a Government Commissioner and Government funds were sent down without delay." [1]

It is to be particularly noted that the distress which prevailed at the time was not partial or local, for every industry was equally depressed. Those trades which had for more than a century been most carefully protected, seem to have been in no single respect in a more satisfactory state than those which had never enjoyed protection. The legislature had, as already explained, again and again interposed to protect the woollen industry against the competition of cotton goods, and yet in the description which has just been quoted the woollen trade is specially referred to as one which was suffering severe depression. When impoverishment had spread so widely that tradesmen in the large towns said "new clothes had become out of the question among their customers, and they bought only remnants and patches to mend the old ones," [2] it was evident that trades, whether protected or not, must alike be involved in a common disaster. When the general industrial condition of a country becomes as unsatisfactory as was that of England at the period just referred to,

[1] Miss Martineau's *History of the Peace*, vol. ii. pp. 520–1.

[2] *Ibid.* p. 521.

protection is quite as powerless to prevent this depression spreading to any particular trade, as it is to secure in more prosperous times an exceptional amount of prosperity for the particular industries which may be protected. It has already been shown that if the price of agricultural produce is advanced, the competition of capital seeking employment would prevent the farmers ultimately appropriating to themselves any extra gains. Just in the same way, if the price of woollen goods were increased by imposing protective import duties, it would be impossible for the woollen manufacturers to appropriate the advantage to themselves. Suppose they were obtaining profits of 20 per cent., whereas the profits of cotton manufacturers were only 10 per cent., capital would be attracted to the woollen trade by the prospect of these large profits, competition would gradually force down prices, until the woollen manufacturer obtained no more than the ordinary rate of profit; the extra price which he received for his goods being only sufficient to compensate him for the extra price which he has to pay for wool in consequence of the importation of foreign wool being restricted by protective duties.

It can in a similar way be shown that the competition of the general labour market renders it impossible for the labourers who are employed in the industries that are protected, to obtain higher wages than those who are employed in the industries which are not protected. Thus, reverting to the example we have just considered, let it be supposed that the price of woollen cloth is so much advanced by protective duties that woollen manufacturers are able for a time to secure an exceptionally high rate of profit, say 20 per cent., and that in consequence of these large profits, the labourers whom they employ obtain higher wages than are earned by those employed in cotton-mills and other branches of manufacturing industry. It is inevitable that the prospect of obtaining these high wages will attract labour to the woollen trade. The

supply of labour in this particular trade will consequently steadily accumulate, until at length wages are no higher in this trade than they are in any other branch of industry. Hence it may be concluded that the rise in price which is caused by protection, whether it be in agricultural or in manufacturing industry, cannot enable either a higher rate of profit or a higher rate of wages to be permanently secured in the industries which are protected. However greatly the price of any particular commodity is advanced, either by artificially stimulating its export or impeding its import, the capital and labour which are employed in its production only receive a remuneration, the amount of which is determined by the return which is yielded to the capital and labour employed in the general industry of the country. Profits and wages therefore cannot be raised in any particular industry by protection, unless at the same time an influence is brought into operation to increase the general rate of profit and wages in all other industries. It has, however, been shown that protection must exert an influence of an exactly opposite kind. If food is made dearer by protection the remuneration of labour is diminished, the general trade of the country is unfavourably affected, and profits decline. A similar effect will be produced, although its influence may not be so immediately felt, by artifically raising through protection the price of any manufactured article, such as iron. If iron becomes dearer a tax is imposed upon the labourer whenever he has to purchase an article of hardware. Again, dearer iron means more expensive machinery, and, if machinery is more expensive, manufacturing industry is carried on under more unfavourable conditions, and from the diminished returns which are yielded there will be less to distribute both in wages and profits.

There is one class, and one class only, that can derive advantage from a high level of prices being maintained through protection. When the price of any article is increased through protection, the pecuniary value of the

land from which this article is procured is proportionally increased. If wheat, by protective duties, is made dearer, the owners of the land on which the wheat is grown can let it at a higher rent; and in the same way those who own coal and iron mines can obtain a higher premium for permission to work these mines if coal and iron are made dearer by the imposition of protective duties on the importation of these minerals.

It may, perhaps, be thought that some doubt is thrown upon the correctness of this conclusion, because since protection was abolished in England the rent of land, instead of falling, has undoubtedly considerably increased. It cannot, however, be too carefully borne in mind that other influences may simultaneously come into operation which will greatly modify the effects produced by any economic agency such as free trade or protection. Thus, as previously remarked, during the period of the corn laws and the sliding scale pauperism was greatly encouraged by the abuses of the old poor law. The cost of maintaining this pauperism threw such a serious burden on landowners that in many districts the poor rates absorbed nearly the whole net produce of the land, and consequently the increase of rent which was secured through protection was in many instances a very inadequate equivalent for the increasing charge which poor rates were constantly imposing. On the other hand, a short time before the introduction of free trade the administration of the poor law was greatly improved by the reforms introduced by the new poor law. The growth of population and the wonderful development in the trade of the country have so much increased the demand for food and other products, that agricultural prices have, on the average, been maintained in spite of foreign importations; consequently through the operation of these and other favourable circumstances the value of land has increased, and there has been such an important rise in rents that it is probable that no class in the community has been so much benefited by free trade as the

landowners, whose ruin it was often confidently predicted would inevitably be brought about by the abolition of protection.

A very competent authority, Mr. James Caird, has shown, in his recently published work on the "Landed Interest," that since 1857 the gross annual value of land in England has risen 21 per cent., in Scotland 26 per cent., and in Ireland 6 per cent.; and he estimates the increase in the capitalized value of the land during this period to be no less than 331,650,000*l.* It is impossible to say what portion of this increase is to be attributed to the operation of free trade. In many instances the land has been rendered more productive by agricultural improvements, and Mr. Caird estimates the amount that has been in this period spent on these improvements to be not less than 60,000,000*l.* After, however, making ample allowance for various circumstances, such as the increase of population and the extension of railways, which have contributed to augment the value of land, it cannot I think be denied that the landowners have been materially enriched by the general increase in national prosperity which has resulted from the development of the commerce of the country since it was freed from the trammels of protection.

At the present time the depression which is affecting so much of the trade of the country is undoubtedly exercising a considerable influence on agriculture. Three bad harvests in succession have brought severe losses upon farmers in many parts of the country; and the difficulties with which they have to contend have been increased by a larger importation of cheap produce from America, while an advance in the wages of agricultural labourers has added to the farmer's expenses. It is evident that of the causes which have brought about the present depression in English agriculture some must be regarded as only temporary in their operation. A cycle of unpropitious seasons has often occurred before, and it may be confidently anticipated that the bad harvests

with which the farmers have lately had to contend will be succeeded by good harvests. It ought not, moreover, to be supposed that the farmer receives no compensation for the additional wages which he is now compelled to pay. A labourer cannot do a proper day's work if he is only half-fed, and experience has often proved that the cheapest labour is not always the least costly. So far, however, as the farmer's position is affected by the competition of cheap meat, wheat, and other agricultural produce imported from America, it may no doubt happen that if the continuance of this importation should cause a low level of agricultural prices permanently to prevail, a readjustment of rents may be rendered necessary. It seems, however, probable that with the revival of trade, and with the application of more skill and enterprise in farming, this foreign competition will become much less formidable than it is at the present time. But even if the continuance of low prices should make farming on its present conditions unremunerative, it is important to remember that the loss will not ultimately fall either upon the farmers or the labourers. Rents will have to be reduced, and the owners of land may thus have to surrender some portion of the 300,000,000*l.* which, as we have seen, has been added to the value of their property during the last twenty years. Rents must ultimately be so arranged as to enable farmers on the average of years to obtain the same profits as are secured by other traders. The general condition of the labour market must to a great extent determine the wages which the agricultural labourer will receive, and if an abundance of cheap produce should cause some reduction in rents, it must be remembered that no one will be more benefited than the labourer will be, if he can obtain on easier terms the meat, the bread, the cheese, and all the other articles which supply his daily wants.

The considerations which have just been adduced afford a striking example of the advantages which result from strictly adhering to a policy of free trade. The owners of land,

the only class who could be injured by the abolition of protection, have not only been uninjured by the introduction of free trade, but have largely participated in the remarkable addition which has been made to the nation's wealth. It has also been shown that under the present system, if the continued importation of cheap food should cause a permanent fall in the value of agricultural prices, the farmers will not ultimately be the losers, and the labourers will be greatly benefited. All that can happen even on the most extreme supposition is that rents may have to be readjusted, and the owners of land may have to surrender some portion of the additional value which has been given to their property during the last twenty years. Under the system of protection the agricultural interest, as we have seen, was repeatedly in a state of such severe depression that Parliament was again and again appealed to, and the rural labourers, sharing the general impoverishment of the country, were in a state of extreme distress. Any advantage which the landowners might have derived from protection was trifling when compared with the benefit which has been conferred upon them by free trade, for during the thirty years that the corn laws were in operation the addition that was made to their rents was insignificant, when contrasted with the great increase in the value of their property which has been secured during the thirty years which have elapsed since protection was abolished.

It is not necessary here to describe at greater length the injury inflicted on a country by protection, because there will be occasion frequently to recur to the subject when considering the arguments that are advanced by leading protectionists in the United States and other countries. Before, however, proceeding to discuss these arguments it will be desirable to make some remarks on the general theory of free trade.

CHAPTER III.

FREE TRADE AND RECIPROCITY.

NOTHING perhaps is so likely to conduce to a just appreciation of the injury which is inflicted by protection, as to show that the economic advantages which are produced by free trade are the same, whether the exchange of commodities is between different countries, or between different parts of the same country. If we inquire what are the benefits which the people of England, for example, derive from trading without let or hindrance among themselves, we at once see that some product can be raised in one locality which cannot be raised in another, and some commodities can be produced under much more favourable circumstances, and therefore much more cheaply, in one district than in another. Even in a country comparatively so small as England, there are so many varieties of climate and soil that various fruits and vegetables which flourish in the south, will scarcely grow at all in the north. Again, the mineral resources of a country are usually not spread over its entire area, but are confined to particular localities. In many English counties, there never has been, and there probably never will be, a single ton of coal, of copper, or of iron produced. The people, therefore, of each locality gain two distinct advantages by freely exchanging their own commodities for those which are produced in other parts of the country In the first place, various articles are thus obtained which could not otherwise be procured;

and in the second place, various other articles are obtained more cheaply than they could be produced in the locality itself. If there were no trade between a county like Kent, which possesses no coal, and the coal-producing counties such as Northumberland or Durham, it is evident that the people of Kent would have to do without coal, and they would be consequently subject to all the inconvenience and loss which would result from being compelled to use some much more expensive fuel, such as wood. The Kentish landowners, who happened to possess land on which timber was grown, might have the value of their property considerably increased by a rise in the price of timber; but the addition thus made to the property of a limited class would be secured at the expense of an incalculable amount of loss and inconvenience inflicted on the community in general.

It may perhaps be urged, that even in the most protectionist countries there now is never permitted to be so much interference with freedom of trade as that which has just been described, and that the importation of articles is never obstructed which a community is unable to produce for itself. Protection, it may be said, is alone confined to imposing restrictions upon the importation of articles which come into successful competition with those of home production. It can, however, be easily shown that even this kind of protection would not be permitted, if it were attempted to apply it with the object of imposing restrictions upon the free exchange of commodities, not between different countries, but between different parts of the same country. It is well known that an extensive manufacture of iron was formerly carried on in many English counties, in which now not a single ton of iron is produced. Sussex and Kent once supplied a considerable portion of the iron which was used in the South of England. The old iron railings round St. Paul's churchyard, which were removed only a few years since, were made from iron which

was both raised and smelted in Sussex, and the quality of this iron was undoubtedly equal to the very best that is made at the present day. Iron has ceased to be manufactured in Sussex and Kent, not because the supplies of iron ore have been exhausted there—hundreds of thousands of tons of ore of the finest quality still remain unworked,—but the iron industry in these counties has succumbed to the competition of more favoured localities. Wood was used for smelting iron in Sussex and Kent. With the growing scarcity and dearness of wood, it became more and more hopeless for localities where wood had to be used, or coal had to be imported from a distance, to compete in the manufacture of iron with Yorkshire, Staffordshire, Wales, and other districts where fuel is cheap and coal and iron are found in close contiguity. In order to prevent the loss of an important branch of local industry, the iron manufacturers in Kent and Sussex might have claimed protection against this competition which they gradually found more impossible to withstand. But if such a claim had been conceded, what would have been the result? The manufacture of iron might still be carried on in these counties, duties sufficiently high being imposed to neutralize the advantages which other districts possessed for the production of iron. The price of iron would thus artificially be greatly increased in Kent and Sussex; and everyone in those counties who had to purchase iron, railway companies having to buy rails for their lines, manufacturers having to buy machinery, farmers having to buy implements, householders having to buy grates and other articles of hardware, would all find that the price they had to pay was increased by twenty, thirty, or forty per cent. An onerous tax would thus be imposed on the whole community, in order to preserve this particular local industry, and to guard it against outside competition.

The question is at once suggested—Would such an arrangement be a desirable one for the general community, and

would they receive an equivalent return for the sacrifice made? With the view of answering this question, let us in the first place consider what would be the exact effect produced on those engaged in the industry thus artificially fostered. These may be divided into three classes. First, there are those who own the land in which the iron ore is found, and from which the material with which it is smelted is obtained. Secondly, there are the lessees of this land, who supply the capital, and who possess the plant necessary for the manufacture of iron. Thirdly, there are the labourers who are employed in mining the ironstone, in smelting and puddling the ore, and who in various other ways assist in the manufacture of iron. With regard to the last two of these classes, it was shown in the previous chapter that the competition of capital seeking a profitable investment, and the competition of labour seeking remunerative employment, effectually prevent any particular branch of industry permanently yielding either an exceptionally high rate of profit or an exceptionally high rate of wages. Whenever it is seen that in any trade an abnormally high rate of profit or wages can be obtained, investors and workmen become so anxious to share these special advantages, that increased capital and labour are constantly poured into the trade, until at length the remuneration which it gives both to employers and employed ceases to be greater than that which is yielded in other branches of industry. The capital and labour, therefore, which may happen to be invested in those particular industries which are guarded against foreign competition by protective duties, will only be able to obtain the average or current rate of profit and wages prevailing at the time. If, therefore, the iron trade had through the agency of protection been kept in existence in Sussex and Kent, those who were concerned in the trade, either as employers or employed, would be no better off than those who were engaged in any other of the trades in the locality: the price of iron would no doubt be constantly advancing; but this

advance in price would not represent a fund from which a more ample reward could be given to labour and capital; it would, on the contrary, be simply a measure of the increasing difficulties and disadvantages under which the trade was carried on. As therefore two of the three classes concerned in this trade, the employers and employed, would derive no permanent benefit from its having been preserved, as it were, in a state of unnatural existence, it will be necessary next to inquire whether any advantage would be conferred upon the remaining class of the three enumerated, namely the owners of the land from which the iron is mined, and from which the fuel is obtained with which it is smelted. It is at once evident that they might be considerable gainers, and that the value of their property might be largely increased. Not only would a rent or royalty be paid for permission to work beds of ironstone, which would remain unworked, and which would consequently have no value at all, if the trade were not preserved through protection, but as timber became more valuable in consequence of the demand for it for smelting purposes, the value of land which was suitable for the growth of timber might be considerably increased. It therefore appears from the example just investigated, that we are led to the same conclusion at which we arrived in tracing the consequences of protecting home industry against foreign competition, namely that the only class who can derive any permanent advantage from protection are the owners of the land from which are supplied the materials necessary for the carrying on of the particular industry which is protected. Competition is ever present as an equalizing force to prevent capital and labour obtaining a higher remuneration in one industry than in another; and consequently wages and profits cannot continue to be greater in those trades which are protected than in those which are not protected.

In thus attempting to show some of the consequences which would result if free exchange between different parts

of the same country were in any way interfered with, it may be thought that I have been endeavouring to prove what no one would now deny. It may, for instance, be said that the most ardent protectionist would not now dream of trying to prevent the free interchange of commodities between different parts of the same country, and that consequently he does not require to be convinced of the expediency of leaving the trade between Kent and Northumberland absolutely unfettered. If, however, the inexpediency of protecting those who are engaged in some trade in a particular part of England against the competition of their own countrymen is self-evident, what reason is there to suppose that restrictions which are admitted to be disastrous if imposed on the trade between Kent and Northumberland can be less disastrous and, economically, less indefensible, if they interfere with the free exchange of commodities between Kent and Normandy? Exchange of produce between Kent and Normandy is prompted by just the same motives, and conduces to just the same ends, as exchange of produce between Kent and Northumberland. Kent would purchase from Normandy, in precisely the same way as she purchases from Northumberland, various commodities which she either could not produce herself, or which could be produced more cheaply in Normandy. Normandy, on her part, would be able to obtain in exchange for the produce she thus sent to Kent, commodities which she could not produce herself, or which she could purchase at a cheaper rate from Kent than she could produce them for herself.

It may be urged that there are social and political considerations which would warrant the imposition of restrictions upon freedom of exchange between different countries; but confining our attention for the present to the economic consequences resulting from such restrictions, I believe it can be shown that protective duties produce the same effects whether the industry of any particular locality is protected against home or against foreign competition. None of the

circumstances which make it advantageous for trade to be carried on between Kent and Northumberland, depend upon the fact that the people of Kent and Northumberland speak the same language and live under the same government. If Kent can produce no coal for herself, and if she can only make iron under such unfavourable conditions as greatly to augment its cost, it is obviously to her interest to import coal and iron, and to give in exchange the hops, fruit, and other produce, for the growth of which her soil and climate give her special advantages. The benefit which she derives from this exchange in no way depends upon the coal and iron which are imported being of home production. The people of Kent are alone interested in getting their coal and iron where it can be obtained most cheaply and of the best quality. Before the last Franco-German war, when Alsace and Lorraine belonged to France, it was never even hinted that there ought not to be the most perfect freedom of trade between these Provinces and the rest of France. Any proposal to protect a particular branch of French industry against the competition of Alsace and Lorraine, would have been considered as absurd as a suggestion that if land on the south bank of the Seine were cheaper than land on the north bank, the manufacturers in the north of Paris should be protected against the competition of those who lived in the south of Paris, because these enjoyed the advantage of having to pay a less price for the ground on which their manufactories were built. Unless the annexation of Alsace and Lorraine to Germany has changed the character of the industries carried on in those Provinces, how can it possibly be less advantageous for the people of France to trade with Alsace and Lorraine than it was before the annexation took place? If the people of Paris, for instance, used to purchase certain goods from Alsace and Lorraine, they did so because they thought it was there that these goods could be obtained on the most favourable terms; and if they can still be obtained on the same terms, it cannot be less advan-

tageous now than it was formerly for the people of Paris to continue the trade with Alsace and Lorraine. Suppose, however, now that the annexation has taken place, a duty of twenty per cent. is imposed upon goods imported from Alsace, in order that the trade of Germany may be discouraged and that of France encouraged. The inevitable effect of this duty would be to compel those who purchased these goods to pay a higher price for them, and consequently an onerous tax would be imposed upon the general body of the French consumers of these goods. But in order fully to appreciate the injury which the French people would inflict on themselves by pursuing this policy of industrial hostility towards a neighbouring nation, it should be remembered that not a single shilling of additional revenue may be yielded to the State by the taxation which is thus thrown upon them. Let it be assumed, for instance, that in consequence of the imposition of this duty, it is found to be more advantageous to obtain from some other part of France, a certain product of which 1,000,000*l.* worth had before been annually purchased from Alsace. The trade, so far as this particular article is concerned, between France and Alsace is altogether destroyed. The price of the product is raised, because it is now obtained under more unfavourable conditions. This rise in price we may suppose amounts to ten per cent.: but as this rise in price may not be sufficient to compensate the Alsatian manufacturer for the twenty per cent. duty which he has to pay, he ceases to trade with France. It therefore happens that the duty yields no revenue to the State, although it raises the price of the article ten per cent., and consequently taxes the French people just as much as if an income-tax of ten per cent. were imposed on all that part of their income which they expend in the purchase of this particular article. The community receives no equivalent for the sacrifice thus made; the loss to the nation is just as real as if, in order to favour the landowners in some particular district, land in some

other district which was more fertile than theirs, should not be cultivated; or as if it were ordered that a country should not obtain its coal and iron from the most productive mines; or if it were enacted that manufacturers should not employ the best and cheapest machinery.

It may, perhaps, be said that although a loss is inflicted on the French people by their being compelled to pay a higher price for the articles which had before been obtained from Alsace, yet a compensating advantage will be secured through the establishment of a new branch of industry in France. But if this were possible, then it would follow that if, before the annexation of Alsace had taken place, some particular kind of manufacture which could be most profitably carried on there, had been prohibited, in order that it might take root in some other part of France, say Normandy, the French people, although they had to pay a needlessly high price for an article of general consumption to encourage the Normandy manufacturers, yet would obtain a compensation because a new branch of industry had arisen in that particular part of France. It is not necessary, for the moment, to consider what would be the effect on Alsace; for the point which now has to be determined is simply this: Is it possible for the rest of France, excluding Alsace, to be benefited by the establishment in Normandy of some branch of industry which could be more profitably carried on in some other locality? If such a proposal had been made, would it not have been at once seen that it would be most unjust to tax the people, for instance, of Paris, Lyons, and Marseilles, by making them pay a higher price for some article, in order that an industry which had before thriven in Alsace should now be carried on in Normandy? If they had to pay more for this particular article, they would be able to afford to spend less on other articles which they might require; and there would be no reason to suppose that the people of Normandy where the new manufacture had arisen would be better customers of theirs

than those by whom the manufacture had previously been carried on. It therefore appears, without taking into account the injury which would be inflicted on Alsace, that no adequate compensation could possibly be obtained by the French people, for the loss which would be inflicted upon them, if industry were, in the manner just described, diverted from its natural channels by compelling some branch of trade to be carried on in a locality, where the labour and capital employed in it would not yield the maximum results.

It will perhaps be rejoined, that previous to the annexation of Alsace, no one would have thought of placing any restriction upon the free exchange of commodities between her and the rest of France; because as long as Alsace remained a part of France nothing could warrant her industry being subject to any special injury; but, it may be said, a policy which could not be defended while Alsace was a French province can be justified as soon as she has been incorporated in the German empire. So long as the Alsatians remained French, anything which lessened their prosperity really tended to lessen the prosperity of France; but when the Alsatians became Germans, any impediments thrown in the way of their prosperity was a disadvantage to Germany, and ceased to be an injury to France. But whatever may be the political advantages which France may consider she secures by impeding the prosperity of Germany, the principle which is here contended for is this: that, viewing the subject only in its economic aspects, the loss which France would have to bear from discouraging some industry which naturally flourishes most in Alsace, is precisely the same whether Alsace is, or is not, a part of France.

If an enumeration is made of the benefits which a country derives from a free interchange of commodities, it will be found that in no single instance does the gain depend upon the two districts, between which the exchange takes place, being parts of the same country. The eastern States of

America find it advantageous freely to trade with the western States, because each produces in abundance some commodity which the other does not produce at all, or because some commodities can be produced at a much less expenditure of capital and labour in one State than in another. But this scarcity and this abundance do not depend upon political circumstances. If, in the late American civil war, the North had been defeated, the destruction of the Union would not have brought coal and iron to localities where they are not now to be found. The climate, the soil, would not have been changed. States, the climate of which is too cold for the growth of cotton, would not suddenly have acquired a tropical temperature. It therefore appears that in no single respect does the economic gain which is admitted to result from the free interchange of commodities, between different parts of the same country, become in the smallest extent diminished if the districts between which the exchange takes place cease to belong to the same nationality. If it were advantageous that there should be perfect freedom of trade between Alsace and the rest of France, when Alsace constituted a part of the French nation, it cannot be economically less advantageous that there should be the same freedom of trade now that Alsace has been incorporated with Germany. The imposition of commercial restrictions on the trade between France and Alsace, may undoubtedly impede the prosperity of Alsace—a loss may thus be inflicted on Germany; but it cannot be too distinctly borne in mind that it is impossible for this loss to be inflicted on Germany, without a loss being at the same time inflicted on France. The injury done to each country is in fact to be exactly measured by the loss which would be caused to the people both of Alsace and of the rest of France, by restricting the Alsatian trade, when Alsace still remained a French province. A policy of commercial restriction, therefore, can only be regarded as economically defensible on the

supposition that it is advantageous for a country to make a considerable pecuniary sacrifice in order to hinder the prosperity of neighbouring countries. It is evident that if this were the principle on which the commercial relations between different nations were arranged, countries might be regarded as being in a state of perpetual war; for even in a time of peace, although there would be a cessation of military conflict, industrial hostility would not for a moment be suspended.

Enough has now perhaps been said to show the general economic advantages which result from free trade. It appears, however, necessary to consider the subject from another point of view, because it seems to be not unfrequently supposed that a country would derive great benefits from free trade, if other countries would adopt the same policy; but that a nation, such as England, is seriously injured, because, prompted by a spirit of foolish and Quixotic generosity, she permits countries which impose protective duties on her products, to send their goods freely to her markets.

Allusion has already been made to the fact that many who profess thorough adherence to the principles of free trade denounce "one-sided free trade as an absurdity," and assert that if other countries impose restraints on our commerce, we ought in self-defence to impose restraints on their commerce. It will not be necessary to consider the question as one of moral right. It may be admitted that if our manufactured goods are kept out of the American markets by heavy protective duties we should be justified in imposing duties with the view of impeding the importation of American produce. But, however completely our right to carry out such a policy of retaliation may be acknowledged, the important practical question remains for us to consider: what are the consequences which such a policy would produce? The protective tariffs which are maintained by the United States, and other countries,

undoubtedly inflict a very serious injury upon our trade; and the simple point to be determined is, whether this injury would be diminished, or whether it would not be most materially aggravated, if we, in order to avenge ourselves, imposed protective duties on their produce. If it were thought expedient to adopt such a policy of retaliation, it might undoubtedly be most reasonably carried out against the United States. The greatest harm which is done to our trade by protection is the loss of free access to the American market, and the tariff of the United States is far more protectionist in its character than the tariff of any other country. This will at once be shown by comparing the import duties imposed on certain English products imported into the United States, France, Germany, Russia, and Austria respectively.[1]

	United States.	France.	Germany.	Russia.	Austria.
	ad val.	*ad val.*	*ad val.*	*ad val.*	*ad val.*
Iron (Bar) . .	67 to 100 %	35 %	Free	50 %	35 %
Copper . . .	30 %	Free	Free	Free	Free
Cotton Yarns .	53 to 85 %	—	4 to 9 %	23 %	6 to 9 %
Woollen ,, . .	85 %	—	½ %	13 %	1 to 2 %
Jute manufactures	30 to 40 %	11 to 26 %	5 %	10 %	4 %

It will be seen from the above figures that by far the highest import duties, which are levied on English goods, are those which are imposed by the tariff of the United States. Not only are the duties in this tariff exceptionally high, but it embraces a far greater number of articles than the tariff of any other country. By the existing tariff of the United States, import duties are imposed on about 1,500 articles; and there is scarcely a single English product which is

[1] See Parliamentary Return, No. 291, 26th June, 1877, "Import Duties on British Goods (Foreign Countries)." The Return was issued by the Board of Trade, and was prepared under the direction of Mr. R. Giffen.

allowed free access to the American ports. By far the greater number of these duties are protective; for it rarely happens in the United States that an Excise duty is imposed on a home product to counterpoise the duty on the same product when imported. The tariff of the United States undoubtedly inflicts a very serious injury on English trade; and it can be a matter of no surprise that the loss we thus have to bear should be the more keenly resented, because England is so good a customer of the United States, that of the aggregate amount of her exports, more than three-fifths are purchased by England. In 1877, the value of the exports from the United States was 122,840,000*l.*; and of this entire quantity, 77,820,000*l.*[1] was sent to England. So seriously does the tariff of the United States hinder the importation of English goods into America, that whereas the value of the exports from the United States to England is 77,000,000*l.*, English goods are made so unnecessarily dear in the American markets by protectionist duties, that the value of the goods America annually purchases from us is only of the average value of about 25,000,000*l.* These figures certainly show that, with regard to the injury which is inflicted on our commerce by the maintenance of protectionist tariffs, we have a much stronger ground of complaint against the United States, than we have against any other country. Consequently, in considering whether it would be expedient to impose a duty on some article of American produce, in order to retaliate upon her for the injury which is done to our trade by her protectionist tariff, the strongest case is taken that can be adduced, in support of what is called a policy of reciprocity.

It is frequently said by the advocates of reciprocity, that nothing can be more unjust than to allow various articles of American manufacture to be sent to England to compete on equal terms with our manufactures, when we are forbidden free access to the American market. Whenever trade

[1] Statistical Abstract, 1878.

becomes depressed, great stress is laid upon the injury which we suffer from foreign competition; and the impression becomes widely spread that this depression is, at least in part, brought about by American goods forcing their way into our markets. But when the statistics of American trade are examined, it is at once made manifest that the injury which is thus done to English trade is so infinitesimal as scarcely to be worthy of consideration. The amount of manufactured goods which is sent from America to England is so extremely small that it could make scarcely any difference if this particular part of the trade between the two countries were to cease altogether. Reference is constantly made to the harm which is done to the cotton trade of Lancashire, and to the hardware trade of Birmingham, Sheffield, and other towns, by the importation of cotton goods and of hardware from America. Yet in 1877, a year of great depression, the value of the entire quantity of manufactured iron and steel imported into England from the United States, was only 200,000*l.*, and the value of the manufactured cotton imported from the United States to England in 1876 was 451,876*l.* This importation, small though it is, was exceptionally large. In the previous year, the value of cotton goods imported from the United States to England was only 95,000*l.* And in 1877 it was only 163,000*l.*, or about one-third of what it had been in 1876. The value of the entire quantity of manufactured cotton imported into England in 1876 was 1,810,759*l.*, and in 1877 it fell to 1,764,802*l.* The unreasonableness of supposing that this trifling importation could to any appreciable extent affect the prosperity of the English cotton trade, is at once made apparent when it is remembered that the value of the cotton manufactures exported from England in 1877 amounted to no less than 69,227,973*l.*

It therefore appears that no influence of any moment could be produced by levying duties, as the advocates of reciprocity propose, on those articles of American

manufacture, imported into England, which come into direct competition with our own manufactures. If we desire to retaliate with effect upon America for the injury which by her tariff she inflicts on our commerce, we must levy duties, not on articles which only constitute a few insignificant items of her trade, but on articles which are exported in such large quantities, that, if the demand for them in England were to decline, the effect would be at once widely felt in America. The commodities which we import in by far the largest quantities from America are products which are either used as food, or which supply the raw material of our most important branches of manufacturing industry.

The following table, the items of which are condensed from the *Statesman's Year Book*, 1879, clearly shows that the produce which we purchase from the United States consists almost entirely of food stuffs, and the raw material of various manufacturing industries :—

Raw Cotton	£23,621,840
Wheat	15,127,336
Maize	8,225,437
Bacon and Hams	5,916,077
Beef and Pork	2,081,121
Cheese	3,129,829
Tobacco	1,864,736
Lard	1,415,936
Oil-seed Cake	1,051,843
Tallow and Stearine	940,008
Butter, Fruit, Hops, various Oils, Wood, Naphtha, Rosin, Skins, Furs, and Caoutchouc	6,253,868
	£69,628,031

As the total value of the exports from the United States to England is 77,825,973*l.*, it appears that at least nine-tenths of these entire exports consist of the articles of food and raw produce enumerated in the above table.

If, therefore, we desire to make the American people suffer some of the same loss and inconvenience which they

inflict on our commerce by the protectionist tariff they now maintain, it would be necessary to impose import duties either on raw cotton, wheat, or on some of the articles of food which are imported in such large quantities from America. It would, no doubt, be possible in this way to do a very serious amount of injury to many of the most important commercial interests in America. It is supposed that one-half of the entire labour and capital of America is employed in agriculture. The prosperity of American agriculture would be materially impeded if, by the imposition of heavy duties, American produce was to any considerable extent shut out from the English markets. But the question at once suggests itself: Could we thus punish America without at the same time punishing ourselves? In endeavouring to answer this question it can, I think, be shown that although great harm would be done to America we should inflict a much more serious injury upon our own country.

Suppose, for example, that a duty of ten per cent. was levied on American cotton imported into England. This duty would increase the price of cotton in England, and as a consequence the demand for American cotton would somewhat diminish. England would, in fact, be not so good a customer for American cotton as she was before, and this would be undoubtedly a disadvantage to America. But how trifling is any loss which could be caused to America by this falling off in the demand for her cotton, compared with the widespread mischief which would result to England from the imposition of such a duty. Complaints recur at frequent intervals about the depressed condition of the cotton trade in England. It is often said that the home demand for cotton goods is not so great as it was, and that competition is so active that our manufacturers find it more and more difficult to obtain a profitable market in foreign countries. But if an import duty were imposed on raw cotton everything that is now regarded as unsatisfactory in our cotton trade must inevitably become more unsatisfactory. The

duty, by increasing the price of raw cotton, would make cotton goods dearer, and this would prejudicially affect the home demand. The consequences however to our foreign trade might be much more serious. If competition with our foreign rivals is now found difficult, what chance would there be of successfully competing with them, if we had to bear the burden of having to pay a higher price for cotton than that at which it could be purchased by foreign manufacturers? The Americans, it is said, are beginning to manufacture cotton goods nearly as cheaply as we can; and they would undoubtedly be able to make them much more cheaply, if we imposed a duty which caused us to pay an unnecessarily high price for raw cotton. The effect of such a duty might be to imperil the prosperity of our own cotton trade; whereas it might at the same time give an important stimulus to the manufacture of cotton in America. With regard therefore to the product which on the average represents in value at least one-third of our entire imports from America, we are precluded from pursuing a policy of retaliation, because any tax which we might impose on cotton would cause America a loss of trifling importance in comparison with the loss which we should inflict on ourselves.

It can, in a similar way, be shown that whatever harm might be done to America, by impeding the import of any of those articles of food which she sends to us in such large and increasing quantities, would react upon ourselves with redoubled force. Wheat next to cotton is the article which England purchases most largely from America. In 1876 the value of wheat and flour imported into England from America amounted to 12,017,659*l.*, and in the following year it reached the high figure of 15,127,536*l.* The American farmers would no doubt be considerable losers if they were prevented having a free access to our markets; but the loss which might be thus caused them scarcely deserves consideration when compared with the mischief which would be done to the entire English

nation by the imposition of even a very moderate duty on American wheat. Suppose the duty were 2*s.* a quarter, the price of all wheat in the English market, whether of foreign or home growth, would be raised by an amount equivalent to the duty, and consequently the duty would take from the English people an amount largely in excess of the revenue yielded to the state. If one-half of the entire quantity of wheat consumed in England were imported from America, the people, in the higher price which they would have to pay for their bread, would be just as much taxed, as if not only an import duty were imposed on foreign wheat, but an equivalent excise duty were levied on home-grown wheat. As such an excise duty would never of course be levied, the first effect of the import duty would be to give a protection of 2*s.* a quarter to English wheat growers. The additional price which would be obtained for English wheat, could not, as already explained, be permanently retained by the farmer, but would certainly be sooner or later appropriated by the landowner in the form of increased rent; or putting it in another form, the poorest classes would be taxed with the result of enriching the richest. But this taxation of a first necessary of life, serious though it would be, does not by any means represent all the mischief which might be produced by thus artificially increasing the price of wheat. As bread became dearer the general trade of the country would suffer, for all industry would be carried on under more unfavourable conditions. Suppose, for instance, that wages were advanced sufficiently to compensate the labourers for the rise in the price of bread, this advance would have one of two effects, either it would diminish profits, and as profits became reduced there would be less inducement to invest capital in industry, or if manufacturers attempted to compensate themselves for the higher wages by charging higher prices for their goods, this advance in prices might seriously affect the home demand for their goods, and thus

tend to neutralise the advantage the labourer had gained by higher wages; it also would place the English manufacturers at a disadvantage in competing for custom in foreign markets. If, on the other hand, wages were not advanced sufficiently to compensate the labourers, then they would have to spend a greater portion of their wages in purchasing bread, and they would consequently be able to lay out less money upon other articles. This falling off in the demand of by far the most numerous class in the community would be felt by almost every trade in the country. It therefore appears that it is impossible for us to retaliate upon America for the injury which she inflicts on us by her protective tariff, because we cannot punish her without at the same time punishing ourselves to a far more serious extent. Although much is often said about the harm which is done to our manufacturers by American competition, yet it is conclusively shown by the trade statistics of the two countries that the manufactures which are imported from America are so trifling in amount that scarcely any effect at all would be produced even if their importation was entirely prohibited.

It will perhaps however be thought that these objections would not arise if England carried out a policy of retaliation and imposed reciprocal duties against other protectionist countries. It may be argued that whenever an article imported from abroad comes into direct competition with articles of the same kind produced at home, the home trader may be fairly protected against this foreign competition if the countries from which the imports come maintain against us protectionist tariffs. But even if our theoretical right to pursue such a policy is admitted, an insurmountable difficulty presents itself, if it is attempted to be carried out. Whenever there is any decline of industrial activity in this country, complaints are invariably circulated about foreign competition, and the depression of trade is sure to be attributed to the home market being overstocked with foreign goods; it is at the same time said that our

merchants find that protective duties exclude them to a large extent from foreign markets. Just at the present time the iron trade is the particular industry which is most depressed, and from the remarks that are frequently made on the subject it appears to be generally assumed that this depression has been to a great extent brought about by iron being sent to our market from Belgium and other countries at a cheaper rate than the English iron-masters can afford to make it. But a comparison of the quantities of iron which England imports and exports, at once shows that foreign competition can have exercised but little influence in creating the present depression. In the year 1877 when the iron trade was most inactive, the entire quantity of iron and steel manufactured and unmanufactured imported into England amounted to only 2,515,034*l.*, whereas the quantity exported was no less than 20,113,915*l.* These figures at once show that the foreign iron-masters cannot sell us iron at a cheaper rate than we can make it ourselves; because if they possessed any such advantages in the production of iron they would drive us out of those foreign markets to which they and we have equal access, and they would gradually appropriate to themselves the larger portion of our export trade. But instead of this taking place the entire value of iron and steel exported from Belgium, the country from whose competition it is said that England has so much to dread, amounted in 1877 to only 1,900,000*l.*, less than one-tenth of the value of iron and steel exported by England during the same year. Hence England has little to fear from Belgium in those foreign markets to which they have equal access. With regard to Belgium iron competing successfully against English iron in our own market, so little reason is there to suppose our trade can be thus injured that the value of the iron exported from Belgium to England in 1877 exceeded by only 210,724*l.* the value of the iron exported from England to Belgium.[1] It therefore appears

[1] *Statesman's Year Book*, 1879.

that the Belgian iron-masters have nearly as much to fear from the competition of England as the English iron-masters have from the competition of Belgium.

Example after example might be repeated similar to the one just described, which would show that the circumstances of England's foreign trade are such, that a policy of retaliation on her part, even if it were desirable, is impracticable. No single case can be brought forward in which English trade suffers to any appreciable extent by foreign products underselling in our own markets the same articles of English manufacture. Even in those industries, where there are most complaints about foreign competition, not only will it be invariably found that the aggregate quantity which is imported represents a mere fraction of the entire quantity which is produced by the home trade; but it would be erroneous to conclude that this importation, small though it is, displaces goods of an equivalent value from the home market. Take, for instance, the importation of iron and steel. A very great variety of articles which are imported are described under the general category of iron and steel. All sorts of implements, and various kinds of machinery, are included in this description, and as some of these, for example American sewing-machines, are not made in England, they cannot be considered to compete with English trade. In a few cases it has no doubt happened that some branch of English trade has, for a time at least, been injured by foreign goods being freely admitted to our markets. Great stress is laid by the advocates of reciprocity on the injury which was caused to the riband and silk trades of Coventry, Macclesfield, and other places by the abolition of the import duties on foreign silks at the time of the French Commercial Treaty. It is alleged that the French have been enabled so much to undersell us in our own markets, that our silk trade has been almost ruined. It will, however, be found, that although

French silks are more largely purchased in this country than formerly, yet any superiority which they are supposed to possess over English made silks does not arise from greater cheapness, but depends rather upon the better taste which is often shown by the French, both with regard to colour and to the selection of designs for patterns. It is also believed that the French climate, and the quality of the water at Lyons and other French towns, provide more favourable conditions for the dyeing of the silk, and the fixing of the colours, than are to be found in England. In such a case, therefore, if the home manufacturer were protected against foreign competition, protection would be virtually given to him, not to secure him against the cheaper labour of his rivals, but to avert, both from employers and employed, the consequences of not taking the requisite trouble to acquire the skill and other qualities which are possessed by their foreign competitors, or of not being provided with equally great natural advantages. If the English silk manufacturers suffered in consequence of the competition of cheap French labour, there is no reason whatever why the same competition should not make itself felt in the cotton trade and other branches of manufacturing industry; and yet England still holds such undisputed supremacy in the cotton trade, that, whereas the value of the cotton goods which she exported in 1877 was 69,227,973*l.*, the value of the cotton goods exported by France in the same year was only 2,480,000*l.*

But even if it could not be proved as conclusively as I believe it can be, that, so far as our own country is concerned, a policy of reciprocity is impracticable, the most cogent reasons might still be adduced why such a policy should not be adopted. Suppose that the injury which was done to the iron trade by foreign competition were not as imaginary as it has been shown to be, and that Belgian iron and steel were sent in considerable quantities into the

English market. If an import duty were imposed with the object of checking this importation, the effect of such a duty would be not only to raise the price of the iron imported, but the price of all the iron produced in England would be advanced by an amount equivalent to the duty. At the present time, the aggregate quantity of iron imported into England is not one-fortieth of the quantity produced in England. But for the sake of argument let it be assumed that the quantity of iron imported is much larger than it is; that after an import duty has been imposed, England imports one-tenth of all the iron which she annually uses. Under these circumstances it is evident that the duty would have the effect of taking from the general body of the English people, in the form of the increased price which they would be compelled to pay for iron, an amount ten times as large as that which the duty yields to the State. Suppose that the home consumption of English made iron and steel is 3,000,000 tons a year. If, therefore, the price of iron were raised one pound a ton by the imposition of an import duty of this amount, the English people would be taxed to the extent of more than 3,000,000*l.*, and the proceeds of this tax would not be devoted to the purposes of the State, but ultimately would be appropriated by those who were the owners of iron mines. The rise in the price of iron, thus artificially created, might in the first instance confer an advantage upon those who were concerned in the manufacture of iron, whether as employers or employed; but, as already explained, competition would force down profits and wages to their normal rate, and the benefit would ultimately accrue to the owners of the mines.

The effect of thus raising the price of iron, in order to benefit a special limited class, would be widely felt throughout the entire nation. Every one who used an article which was wholly or partly made of iron, would find the price he had to pay for it artificially and unnecessarily increased. The consequence of this rise of price to the general com-

munity would be precisely the same as if a tax were imposed on every article in which iron was used, on ships, machinery, railway metal, ploughs, harrows, spades, and on a countless number of articles in domestic use. It will be subsequently shown that if one special trade were thus subsidised at the public expense, others would promptly come forward to press their claims for similar consideration. It would soon appear that no valid reason could be assigned why the protection given to one industry should be denied to others; and the system, once commenced, would be rapidly and inevitably extended.

As a policy of reciprocity seems to derive its chief support from those who propose it as a remedy for industrial depression, it will be desirable, before leaving the subject, to show how materially this depression would be increased by the adoption of such a policy. Reverting to the example which has just been considered, it is obvious that if an import duty were placed on iron, and its price were thus raised, every industry in which iron was used would be carried on under more unfavourable conditions. The shipping trade, for instance, has shared in the general depression as much as any other industry in the country. But, depressed as it has been, it would become still more depressed if everyone who wished either to build or purchase a ship found that the iron of which it was constructed was taxed, in order to make it dearer. A mischief of a serious and a permanent kind might result to the trade, for if by the exclusion of foreign iron, English iron were kept at an abnormally high price, it might become advantageous for English shipowners to build their ships, not on the Tyne or the Clyde, but in some foreign port where cheap foreign iron could be used. Again, every manufacturer who purchases machinery, would in consequence of iron being dearer, have to pay a higher price for his machinery, and consequently the cost of producing his goods would be increased; he would thus be placed at a disadvantage with

his foreign competitors. It therefore appears that whenever an attempt is made to protect one industry against foreign competition, an additional burden is thrown upon other industries, which places them at a disadvantage with their foreign competitors.

Although a great variety of other illustrations may be given to show that industrial depression would not be lessened, but would on the contrary be greatly aggravated by the adoption of a policy of reciprocity, yet it is not necessary to refer to the subject at greater length here, because there will be occasion to recur to it when proceeding to consider, in the next chapter, the leading arguments on which at the present time reliance is placed by those who support a system of protection.

CHAPTER IV.

THE ARGUMENTS OF PROTECTIONISTS.

AFTER a careful consideration of the arguments which are adduced in support of protection by those who may be regarded as its leading advocates in America, in the Colonies, and in various Continental countries, I think it will be admitted that a full and complete statement of their case will be given by arranging the arguments which are now advanced in support of protection under the following thirteen heads. It will be observed that some of these arguments are of a contradictory character. This circumstance is however accounted for by the fact that protection is regarded from different points of view, and supported for different reasons in different countries, and I have been anxious to omit no argument to which importance is attributed by those who defend protection in the various countries in which it is maintained:—

1. Protection is desirable, and especially so in a young country, because it secures diversity of industry. A country such as America or Australia possessing an almost boundless extent of fertile land, has exceptional facilities for the production of raw material. If therefore manufactures are not fostered by protection, labour and capital will be chiefly devoted to argriculture, and the growth of towns will be discouraged.

2. Protection, by encouraging various branches of home industry, makes a community much less dependent upon foreign countries.

3. The American protectionists assume that in foreign trade the cost of carriage is paid by the exporting country. Raw produce being more bulky than manufactured goods of the same value is more costly to export. They therefore argue that America would be placed at a disadvantage compared with England if she imported all the manufactured goods she wanted in exchange for raw produce.

4. It is said that the home manufacturer has to pay various taxes which are not levied from his foreign competitor, and therefore if he does not receive some compensation in the form of protection, he must necessarily be placed at a disadvantage.

5. Protection is advantageous to a country because it encourages various branches of home trade, and discourages to the same extent the trade of foreign countries.

6. A protective import duty, it is asserted, is ultimately almost entirely paid by the foreign producer. Consequently protection secures the double advantage of taxing the foreigner and of encouraging home industry.

7. As profits and wages are not higher in protected industries than in those which are not protected, the objection ordinarily urged against protection—that it benefits a special trade at the expense of the general consumer—cannot be fairly maintained.

8. Protection is economically advantageous because, if a country obtains its produce at home instead of importing it, the labour employed in transporting produce from a distance is saved, and this labour is assumed to be unproductive.

9. Protection is represented as conferring great benefit upon the working classes in America, because the wages which are paid in certain industries which enjoy protection in America, are higher than the wages in the same industries in free-trade England.

10. Protection would be unjust if only one industry were protected, because the general public would obtain no

compensation for the increased price they would have to pay for the product of this particular industry. They however obtain this compensation, if protection is so extended that the entire industry of the country participates in its advantages.

11. Protection has been defended on the ground that wages being higher in America and in the Colonies than in England the American and the Colonial traders require protection in order to place them in a position of equality with their English competitors.

12. Protection, having been once established, cannot be abolished without causing great loss to employers and employed in those trades which have been protected.

13. Protection can be advantageously introduced into a young country as a temporary expedient, since various industries which will ultimately prosper without protection require its aid in the early stages of their existence.

I will now proceed to consider these arguments in the order in which they have been stated.

1. *It will be observed that in the foregoing enumeration of the reasons which are advanced in support of protection the first position has been given to what is known as the "diversity of industry" argument, because there is no single point on which so much stress is laid by American and Colonial protectionists.*

It is contended that a country which has almost inexhaustible supplies of fertile land, considerable portions of which are still unoccupied, possesses such exceptional advantages for agriculture that its labour and capital will be chiefly concentrated on the production of raw produce; it is accordingly maintained that although it might be cheaper, for instance, for America to purchase from foreign countries various articles of manufacture with this raw produce instead of making the articles for herself, yet the gain thus secured would be dearly bought because of the harm which would be done to America if there were no variety in the occupations

of her people. If scarcely any industry were carried on except agriculture, many who were not suited for out-door work but who could acquire a skill which would enable them to excel in some handicraft, might find it impossible to obtain any employment for which they were qualified; there would consequently be a great waste of industrial power. It is also alleged that the social development and progress of the country would be most seriously impeded, if the greater part of its population devoted itself to field work, and lived in scattered settlements; whereas if manufactures were established people would become more concentrated, the growth of towns would be ensured, and in addition to the foreign demand, there would arise a large home demand for agricultural produce.

It is evident that the whole of this reasoning rests on the hypothesis that it is impossible for manufacturing industry to exist in a young country unless it receives the fostering aid of protection. It can, I believe, be shown that this hypothesis is not warranted either by theory or by experience. When a country is first settled and is consequently very sparsely peopled, it possesses no sufficient supply of labour for the establishment of manufactures on an extensive scale. Gradually however as population increases there will arise various branches of domestic industry which will supplement and assist in various ways the labour of those who are engaged in agriculture. However purely agricultural the industry of a country may be, there must always be a great deal of work to be done which will provide many different kinds of employment besides the mere tilling of land. Houses and other buildings have to be erected, roads have to be made, agricultural implements and machinery have to be repaired, and the cost of carriage will make many articles, especially those of a bulky kind, so expensive to import that, although labour may be dearer in a new country, it will be found cheaper to make the articles at home. The various trades and handicrafts which are

thus called into existence will create an increasing demand for skilled labour, and in this way that industrial uniformity about which the protectionists express so much alarm will be avoided. It has been already explained that the home trader, even where no protective duties are imposed, enjoys a natural protection so far as the home market is concerned, because he can bring his produce to this market at a much less cost, than can his foreign competitors.

Although the desirability of securing diversity of industries is constantly put forward as one of the chief reasons why protection is supported, yet the tariff which is at the present time maintained in the United States affords a conclusive proof that motives of a very different kind must exercise a powerful influence on those who favour protection. It will be found by referring to this tariff, that protective duties are not solely imposed on manufactures. No article for instance is subjected to a heavier import duty than timber. It cannot be supposed that by excluding Canadian and other timber from the American market and thus making timber dearer than it otherwise would be, the growth of towns will be encouraged, and that a greater amount of suitable employment will be forthcoming for those who possess the skill required in various handicrafts and who are not fitted for rough out-door work. Such a duty exercises an influence in exactly the opposite direction: for when the home timber trade is thus artificially encouraged by protection, a greater number of the population are scattered far and wide over the country, employed in cutting timber and bringing it to market. The most serious objection to be urged against the policy of imposing duties in order to force into an unnatural existence certain branches of industry arises from the fact, that when the aid of such an agency has once been resorted to, its future operation cannot be controlled. Although it may have been intended by those who first introduced protection into the United States, to do nothing more than give a temporary assistance to certain

manufacturers in order to enable them to struggle against the difficulties which often beset a new industry, yet the aid which was thus given, far from being temporary, has been continued for nearly a century; and instead of a few products being protected against foreign competition there is scarcely a single article that can be produced in the United States which is not now subjected on importation to a high protective duty. This extension of protection is not due to any accidental circumstances. Fire is not more certain to spread amongst inflammable material than is protection when once sanctioned to embrace a constantly increasing number of industries within its influence. Each new protective duty which is imposed inevitably creates a demand for more protection in other industries. The iron-masters, for example, of the United States may not improbably demand a greater amount of protection, for high as are the protective duties now imposed on imported iron, amounting in some instances to 100 per cent., foreign iron still finds its way in considerable quantities to the American market. In 1874 no less than 3,000,000*l.* worth of iron was imported. This influx of foreign iron, it may be urged, constantly forces down prices, deprives the iron-masters and those whom they employ of a part of the prosperity to which they are fairly entitled when trade is active, and intensifies the depression of adverse times. If a demand for more protection were conceded, the supply of foreign iron in the American market might be greatly curtailed and the price of American iron would be considerable increased. But the moment this advance in price occurred a signal would be given to demand more protection in a great number of other industries. Every article which was made of iron would become dearer, and those who had to purchase these articles would find a new burden imposed upon them. The American cotton and woollen manufacturers might fairly say—"It has been scarcely possible for us to hold our own against our foreign competitors, but now that in order

to benefit the iron trade the price of iron has been increased, we have to pay more for our machinery; this places us at a disadvantage compared with English, French, and other manufacturers; we have consequently a right to demand an increase of protection, in order to compensate us for the advantage which would otherwise be given to our foreign rivals."

In discussing the various arguments which are adduced in support of protection it will not be sufficient to consider the subject simply in its economic aspects. Thus, as already stated, the social and other benefits which are conferred upon a country by its possessing a diversity of industries are supposed to provide an ample compensation for any economic loss which may be caused by protection. As complaints are constantly made by protectionists that their opponents persistently ignore all the results of protection which are not economic, I will be careful to consider these results, and I shall be the more anxious to do so because without such consideration the real magnitude of the mischief which is done by protection cannot be adequately understood. There is nothing more calculated to exercise a deteriorating influence upon a country than to encourage its industrial classes to be perpetually looking to the State for assistance. When a nation becomes thoroughly imbued with the doctrines of protection, it seems to display towards competition the same sort of helpless terror as is shown by a timid child terrified by the fancied presence of a ghostly apparition. The statistics of exports and imports are eagerly scanned, and whenever the import of any particular article is discovered to be on the increase a piteous cry is raised for more legislative protection against this growing foreign competition. Instead of trying to ascertain whether if the foreign producer is gaining an advantage, it is not being secured through greater industrial enterprise, recourse is immediately had to all the political artifices by which any particular trade interest can bring its influence to bear on

the government. The efforts which are thus being constantly made by those engaged in different industries to secure legislative aid, have probably done more than anything else to encourage that "lobbying" and "wire pulling" which form such prominent features in the politics of the United States. No inconsiderable portion of the energy of her public men, which should be devoted to further objects of national importance, is employed in gaining for some particular trade what is supposed to be the privilege of a higher protective duty. This opinion is forcibly confirmed by an able American economist, Professor W. G. Sumner, who says:—

"This continual law-making about industry has been prolific of industrial and political mischief. It has tainted our political life with log-rolling, presidental wire-pulling, lobbying, and custom-house politics. It has been intertwined with currency errors all the way along. It has created privileged classes in the free American community, who were saved from the risks and dangers of business to which the rest of us are liable. It has controlled the election of congressmen, and put inferior men in office, whose inferiority has reacted upon the nation in worse and worse legislation. Just now we are undergoing a spasm of indignation at official corruption, and we want to reform the civil service, but there is only one way to accomplish that, and that is to cut up the whole system which has made the civil service what it is." [1]

It would therefore seem to be conclusively established that protection may produce social and political consequences even far more mischievous than the economic loss it causes to a country.

2. *The second argument in favour of protection is, that by encouraging various branches of home industry, a community is made much less dependent upon foreign countries.*

This argument may be at once admitted to constitute the

[1] *Lectures on the History of Protection in the United States*, by Professor W. G. Sumner.

only logical basis on which a protective system can be supported; for if it could be assumed that the normal condition of a country was to be perpetually at war with its neighbours, it would become of the first importance to make it, as far as possible, industrially independent of them. Under such circumstances it might be expedient, at whatever cost, to impose protective duties with the view of establishing and maintaining various branches of home industry. It is on grounds such as these that protection is probably most frequently defended. Thus the French consider that they are amply justified in imposing a protective duty on salt, because without such a duty, no salt would be produced in France, and all the salt which the French people consume would consequently have to be imported. It is said that in time of war, the coast of France and her frontiers might be so effectually blockaded that no salt could be imported; time would be required to create the necessary appliances for its manufacture: her people might thus be deprived of the supplies they required of a first necessary of life, and they would be placed at a great disadvantage in the war in which they might be engaged. It is therefore maintained that rather than incur this risk it is better for the French people to pay an increased price for the salt which they consume. Let us however endeavour to estimate the exact degree of risk which France would incur of being deprived of its supplies of salt if it were freely imported, and then we shall be better able to judge whether the price which is now paid to avert this supposed danger can be regarded as a wise and judicious expenditure.

It is scarcely possible to imagine any conjuncture of circumstances which would cause France to be engaged in such a universal war that she had not a single ally or a single neutral power on her frontier. The first Napoleon was at one time carrying on war with the greater part of Europe; and yet there was never a moment even in his unparalleled career of military aggression, when all the coasts and all the

frontiers of France were so completely blockaded that no foreign product could find its way to her markets. There would therefore seem to be every reason to conclude that the danger which protection is supposed to avert is a purely imaginary one. But even if we admit the bare possibility of its occurrence, the question is at once suggested, Cannot some other means be devised of guarding against it, which will prove less burdensome to a country, than compelling its entire people, whether rich or poor, to pay an unnecessarily high price for articles of the first necessity? The consumption of salt in France for domestic purposes may be estimated at about 360,000,000 lbs. Salt is subjected to an excise duty in France of 4*s.* per cwt.; but the duty which is imposed on foreign salt when imported being thirty-three per cent. higher than the excise duty, French salt is by this duty so effectually protected that scarcely any salt is imported. It is affirmed on the authority of those who have an intimate practical knowledge of the salt trade that this restriction of foreign importation increases the price of salt in France by a halfpenny a pound; consequently the protective duty imposes a tax on the French consumers of salt of at least 750,000*l.* a year, beyond the amount which the duty on salt yields to the French revenue. When it is remembered that salt is used for many purposes in manufacturing and agricultural industry, it is a moderate estimate to assume that the protective duty on salt annually imposes a fine of 1,000,000*l.* on the French people, beyond the amount which is directly levied from them by the salt tax. This 1,000,000*l.* a year is taken from them, in order to give encouragement to the home manufacture of salt, and in order to make France independent of foreign supplies. It has also to be borne in mind that the protective duty, although it imposes this heavy fine on the French people, far from adding anything to the revenue, actually diminishes it to a considerable extent. If no protective duty were imposed on foreign salt, and if the excise and import duty were exactly

the same, the price of salt would be materially reduced in France: the consumption of salt would consequently be increased, and the revenue would be proportionately augmented, if the import duty were reduced to the same rate as the present excise. Not only therefore does protection injure the revenue, but by unnecessarily increasing the price of salt it imposes a tax of at least 1,000,000*l.* a year on the French people. Not one shilling of this large amount can be appropriated by the government to the general purposes of the State, for it has to be entirely devoted to compensate the French manufacturers of salt for the disadvantages under which they carry on their industry, compared with the favourable conditions under which salt can be produced in England and in other countries.

It is not necessary to express any opinion here with regard to the expediency of taxing such a necessary of life as salt. I am simply attempting to trace the effect of preventing the importation of salt by a protective duty; and however high the duty imposed on salt might be, it would cease to be protective if home-made and foreign salt were taxed at the same rate. From the figures just given an idea can be formed of the price which is annually paid by the French people, with the object of guarding themselves against the remote contingency of a war so universal that every avenue by which foreign produce could find its way into France would be completely closed. As such an event has never yet happened, the greatest alarmist can scarcely suppose that it will occur more than once in a century. It would thus appear that in order to provide against it a contribution amounting in the aggregate to 100,000,000*l.* would be levied from the French people.

If this policy of making a country independent of foreigners is to be carried out, it will not be sufficient simply to protect the home manufacturer of salt against his foreign competitor. The home production of numerous other articles must be similarly fostered; the price of all these must be

artificially raised to such a point as will compensate the home trader for the disadvantages under which he may have to carry on his industry, and thus the loss which is caused to France by making her independent of foreign countries for her supplies of salt may be indefinitely increased. A most serious burden might in this way be cast upon the entire industry of a nation, and even in periods of profound peace a country would thus be virtually making the most costly preparations for war. If it were really worth while for a country to take precautionary measures against a danger so shadowy and remote, it would be far cheaper on the eve of hostilities to accumulate stores of the products which are imported, than for the people constantly to have to bear the serious loss which is inflicted on them by articles which they are obliged to purchase being made unnecessarily dear.

Although the supposed desirability of making a community independent of foreign countries is one of the arguments most commonly advanced in favour of protection both in America and in our Colonies, yet all the reasons which have been adduced against protection being maintained for this purpose by such a country as France apply with tenfold force to the United States and Canada. Great as is the improbability that France can ever be cut off from her supplies of foreign products, the improbability is still greater that the United States, Canada, and Australia, with their thousands of miles both of land and sea frontier, could ever be so completely surrounded by hostile forces that they could not continue to obtain supplies from foreign countries.

3. *It is argued in favour of protection, and especially by writers on the subject in America, that the cost of exporting produce being paid by the exporting country, America would be placed at a disadvantage compared with England if the commerce between the two countries consisted chiefly in sending raw produce from America in exchange for manufactured*

goods; because the former, being in proportion to its value more bulky than the latter, will be more expensive to export.

It can be readily shown that this argument possesses no validity, for it is based on the erroneous assumption that the cost of exporting produce is paid by the exporting country. In order to prove the fallacy of this assumption, let us inquire what would be the effect of reducing from 6*s.* to 3*s.* the cost of sending a quarter of wheat from New York to Liverpool. If, after this reduction in freight took place, American wheat continued to sell in England at the same price as it did before, the profit realized on every quarter of American wheat sold in England would be increased by 3*s.* This opportunity of securing extra profit would inevitably cause increased supplies of American wheat to be sent to England, and this would continue until the price of American wheat was so much reduced in England that it was not more profitable to sell it there than in America. The difference in the price of wheat in New York and in England cannot be permanently greater than is the cost of exporting wheat from New York to England. If therefore this cost is reduced, the price of American wheat in England must be also reduced by nearly an equivalent amount. The fall in price would not probably be quite equal to the reduction in the cost of carriage; because as American wheat became cheaper in England, the demand for it would become greater, and this increase in demand might produce a slight rise in its price in America. It still, however, is certain that a lessening of the cost of carriage would produce a reduction of price in the importing country of almost exactly the same amount, and consequently it follows that the cost of carriage instead of being borne, as is assumed by American protectionists, by the exporting country, falls almost entirely upon the importing country. It is obvious that the first effect of a rise in the freight between America and England would be to increase the price, to the English consumer, of wheat and all other produce

imported from America; and any reduction in freights would in the same way confer a greater advantage upon England than upon America, because the price of all American produce in the English market would be reduced by an amount nearly equivalent to the saving in the cost of carriage.

4. *The next argument advanced in support of protection is that the home trader needs protection, because, since he has to pay various taxes which cannot be levied from his foreign competitors, it is necessary, in order to place him on a position of equality with them, that he should receive some compensating advantage.*

With regard to this argument it may be remarked that the foreign producer has to pay the taxes which are imposed in his own country, and it is a mere matter of chance whether these taxes in the aggregate are heavier than those that are imposed in the protectionist country. If protectionists argue that the burdens on production are always more onerous in a protectionist country, such an admission may be fairly regarded as a conclusive condemnation of the protectionist system. The aggregate amount which has to be raised by taxation in an old country, such as England, is in proportion to her population far larger than is required by the government in the United States. The imperial revenue raised in England at the present time represents a charge of about 2*l.* 10*s.* a head; whereas in the United States the charge is less than 1*l.* 10*s.* a head. If therefore the raising of this larger amount in England proves less burdensome to her industry than the raising of a smaller amount in protectionist countries, it proves that their system of taxation is radically defective.

It is also worthy of notice that if the home trader is to be protected in proportion to the taxation which he has to bear, each addition that is made to taxation in a protectionist country will become doubly burdensome to the general community; because it will create a demand for

fresh protection. Thus if a larger revenue is required in America, and it becomes necessary to impose a tax on dwelling-houses and business premises, the American manufacturer would immediately put forward a claim for more protection. He might, for instance, urge that before this new taxation he was only just able to compete with his foreign rivals; the new burdens which he has to bear will place him at a disadvantage, and he will, therefore, claim that he should be compensated by heavier import duties being imposed on the goods which come into competition with those which he produces. The price of cotton and woollen goods, of iron, and of various other manufactured articles, would thus be increased through the imposition of these higher duties. Consequently the people would be doubly taxed: they would not only have to provide the additional revenue which is required, but they would have to pay a higher price for all those various articles which were subjected to increased import duties. The increase of these duties, although extremely burdensome to the people, might not yield any additional revenue to the State; on the contrary, importation would probably be restricted, and thus the revenue yielded might be less than it was before.

The argument we are now considering affords a striking illustration of the mischievous influence which must be exerted by protection, if a policy of commercial restriction is carried out with logical consistency. The tendency of protection must necessarily be, to deprive the population of the country in which it is maintained, of the advantages arising from any improvements in productive industry, which may be introduced into other countries. Thus, if a mechanical invention cheapened the production of a manufactured article in England, or reduced its cost of carriage so much that the English manufacturer was able to sell it in the United States at a reduction of ten per cent. on its former price, the American manufacturer would immediately put forward a claim to higher protective duties. It is in

strict accordance with the principles of protection that this claim should be granted; and if it were granted the American people would lose the benefit they would otherwise gain in being able to purchase a particular article at a considerably reduced price. In the absence of protection, the home manufacturer who found himself placed at a disadvantage in consequence of his foreign competitor having adopted some mechanical improvement, would endeavour to improve his own manufacture, so as to be able to sell his goods at the same rate as the foreigner. It would thus become a trial of skill against skill, instead of a competition of skill against restriction.

5. *One of the most important advantages claimed for protection by its advocates, is that it not only encourages various branches of home industry, but discourages the trade of foreign countries to a corresponding extent.*

Thus it is argued that if iron were freely imported into the United States, the many millions which are now expended in America in the purchase of iron, instead of being distributed amongst the American manufacturers of iron and their workpeople, would be sent to England. Such a transfer it is assumed would enrich England and impoverish America. It is, however, evident that those who hold this opinion must consider that a community is injured by any circumstance which promotes the prosperity of neighbouring countries. Protectionists may perhaps hesitate to avow such a doctrine when stated in plain terms, but it can be readily shown that this is the conclusion to which the principles they profess inevitably lead.

Protection, as previously remarked, may be regarded as a survival of the mercantile system; the opinions which were propounded by its adherents bear a remarkable resemblance to those which are expressed by the protectionists of the present day. Thus when they insist on the harm which would be done to America if iron were more largely imported from England, they constantly speak as if

the additional iron which would be bought from England would have to be paid for with hard cash, and it seems to be thought that America would constantly have more and more money drained away from her. Nothing, however, is more certain than that if America purchased goods more largely from England, the English people would in their turn increase their purchases of American produce. If it were advantageous for a country as far as possible to diminish the quantity of products imported, that country would derive the maximum profit from foreign commerce whose exports were large compared with her imports. To secure a large excess of exports over imports seems in fact to be the goal to reach which protectionists are ever striving. Side by side with the imposition in the United States of innumerable import duties, many of which are so high as to be prohibitive, such eager anxiety is shown that not the slightest impediment should be thrown in the way of foreign countries freely purchasing American produce, that not only is no proposal ever made of levying an export duty in the United States, but the imposition of such a duty is forbidden by the American constitution. Amongst French protectionists the same terror is shown of an excess of imports over exports. Thus in a recent address of the Chamber of Commerce of Elbœuf, protesting against the renewal of the Commercial Treaty with England, it was stated that whereas in 1875 the exports of France exceeded her imports by 297 million francs, in the next year the imports were in excess of the exports by 271 million francs, and it was said that consequently there had been a transfer in this period of nearly 600 million francs "to the prejudice of France." But if a country is benefited by its exports and injured by its imports, we are led to the conclusion that a community is enriched in exact proportion to the smallness of the return which it receives in exchange for the produce which it sends abroad. But if this were the case a community would derive the maximum advantage

from foreign commerce when in exchange for various useful products which it exported it received scarcely anything except money. Such a result might no doubt be brought about if a protectionist policy were carried out with sufficient thoroughness and completeness. Suppose for instance that protective duties were increased in the United States; the quantity of articles imported from England and other countries might be greatly diminished, whilst the demand of these countries for American produce would continue. If English harvests, for example, were deficient and America had wheat to spare, this wheat would be gladly purchased by the English people. They would not deprive themselves of bread because America had increased her import duties. If, however, produce continued to be thus exported whilst imports were more and more reduced, a larger portion of these exports would have to be paid for with money, and a larger amount of money would consequently have to be annually transmitted to America. This being the case the question is at once suggested, would such a transmission of money be more advantageous to America than if, in exchange for the products she exported, she obtained various manufactured goods and other articles which would minister to the wants and enjoyments of her people?

The value of gold and silver is determined by the same laws as those which regulate the value of other articles of mineral produce. If money were constantly poured into a country in the manner just supposed its supply would be increased, and its value would proportionately diminish. Hence, a commerce which consisted in exporting useful products in exchange for money, instead of being peculiarly beneficial would really be specially disastrous to a country; for produce would be sent abroad which might be used in furnishing the people with the necessaries and enjoyments of life; and in exchange for the real and tangible advantages which were thus parted with, nothing would be secured but an increased supply of money, with a

consequent depreciation in its value, producing a rise in general prices.

The policy having been once commenced of creating a "favourable balance of trade" by discouraging imports, could not be continued without imposing more and more onerous and mischievous restrictions on commerce. The rise in general prices which it has been shown would occur in America if she were chiefly paid for her exports with money and not with produce, would obviously tend to diminish the amount of her exports and to increase her imports. If wheat and maize and other articles became dearer in America a less quantity of these articles would be purchased by other countries, and consequently her exports would diminish. At the same time the rise in prices in America might make it profitable for England and other countries to send goods there which before could not be sent except at a loss, and this increase in imports would cause the imposition of higher protective duties to be demanded.

The case which has just been investigated affords another example of the fact that any injury which a country inflicts on the commerce of other nations, instead of yielding her any advantage, is sure sooner or later to react upon herself, and generally with redoubled force. Protectionists, as we have seen, are always most anxious to promote exports and to discourage imports; and yet every new protective duty which is imposed is just as effectual in impeding an export trade as if a duty were levied on every article which is sent abroad. It has, for instance, just been shown that an inevitable result of a protectionist policy is to make the articles which are exported dearer, and consequently to diminish the foreign demand for them. This falling off in the foreign demand will still further be aggravated by the loss which a country inflicts on others besides herself by the maintenance of a protective tariff. England no doubt suffers seriously from the protective duties of America, but the more serious

the injury which is thus inflicted on her, and the greater the loss of wealth which it causes, the more will her power of purchasing the goods which America wishes to send her be diminished. If trade improved in England, if employment became more abundant, if profits increased and wages advanced, there is not a single article of general consumption for which the demand would not increase; and this increase in demand is just as certain to take place, whether the article is made at home or whether it is imported.

6. *It is argued by protectionists that a protective import duty is ultimately almost entirely paid by the foreign producer, and it is therefore supposed that protection secures the double advantage of compelling foreign countries to contribute to the home revenue, whilst at the same time encouragement is given to home industry.*

This argument is supported with much ingenuity by a well-known American economist, Mr. Francis Bowen.[1] It is contended by him that if America imported 40,000,000*l.* worth of manufactured goods when an import duty of 10 per cent. was levied, and if when this duty was raised to 35 per cent. only 20,000,000*l.* worth of goods were imported, the government would not only obtain a larger revenue from the smaller importation, but England in consequence of the falling off in the demand for her goods would be compelled to sell them at a lower price. It is therefore urged that the effect of a protective duty is to enable a country to purchase foreign produce at a cheaper rate, and consequently the country which maintains protection is placed in a position to make a better bargain with those from whom this produce is bought. In this reasoning the fact is altogether ignored that although the price which the English may obtain for their goods is somewhat less than it was before the duty was raised, yet this reduction in price is extremely trifling compared with the extent to which the price is raised in the importing country in consequence of the increase of duty;

[1] See *American Political Economy*, by Francis Bowen, p. 487.

therefore, although those who purchase the article in America may not find its price advanced by the full amount of the increased duty, the advance will yet be sufficient to cause by far the greater part of the duty to fall upon those who consume the article in America, and not upon those who produce it in England.

In order to show this, let it be assumed, following the example given by Mr. Bowen, that 100,000 pieces of woollen cloth, the value of which in England is 1,000,000*l.*, are exported from England to America when the import duty is 10 per cent. Suppose the cost of the carriage of this cloth is 1*l.* a piece, and the duty being 10 per cent. will also be 1*l.* a piece. Consequently the price at which the cloth will sell in America will be approximately 12*l.* a piece because the price must be sufficient to provide a compensation for the cost of carriage and for the duty. If the price were more than sufficient to do this it would be more profitable to sell cloth in America than in England, and the price would be inevitably forced down by those who had cloth to sell being naturally anxious to secure the advantage of this extra profit. If, on the other hand, the difference in the price of cloth in the American and English markets were not sufficient to pay the cost of carriage and the duty, then it would be less profitable to sell English cloth in America than in England, and English manufacturers would consequently refuse to export cloth. When the duty is raised from 10 per cent. to 35 per cent., a piece of cloth which was worth 10*l.* in England would have to be sold in America not at 12*l.* but at 14*l.* 10*s.* because the difference between its price in the two markets must be sufficient to cover the duty as well as the cost of carriage; the cost of carriage is still 1*l.*, but the duty, having been raised from 10 per cent. to 35 per cent. is 3*l.* 10*s.* The protectionists however are no doubt right in their contention that with this great increase in the price of English cloth in America, there would be a considerable falling off in the American demand. Accepting the

hypothesis on which the argument advanced by Mr. Bowen is based, let it be assumed that the importation of English cloth into America is reduced from 100,000 to 50,000 pieces. This diminution in the demand for cloth would undoubtedly affect its price in England, but the reduction in price would inevitably be small when compared with the increase of duty. The price cannot permanently fall below such a point as will make the manufacture of cloth less remunerative than other branches of industry.

It would be an excessive estimate to suppose that a falling off to the extent of one-half in one branch of the foreign demand for English cloth, resulting from an increase of the American protective duties, would cause a reduction in price of 10 per cent. But even if it is assumed that the price is reduced by this amount, a piece of cloth which before was worth 10*l.* in England would now be worth 9*l.*, and its price in the American market would be 13*l.* 3*s.* instead of 14*l.* 10*s.*; because the difference in its price in the two markets must be sufficient to pay the cost of carriage, which is 1*l.*, and the duty, which is 3*l.* 3*s.*, being 35 per cent. on the value of the cloth which is now 9*l.* It therefore appears that although the price of English cloth in America is not advanced by the full amount of the increase of duty, yet the price is raised from 12*l.* to 13*l.* 3*s.*; in fact cloth is made so dear that the American people can only afford to buy half as much from England as they formerly purchased. An injury will no doubt be inflicted on English trade by this falling off in the American demand: it must however be borne in mind that the loss which may be thus caused to a special branch of English industry may bring with it a compensating advantage. Thus it has been assumed that owing to less cloth being exported to America, cloth becomes cheaper in England by 10 per cent. Everyone therefore who wishes to purchase English cloth, whether at home or abroad, will be benefited by its being thus made cheaper. With this fall in price, the general demand will

increase; this will inevitably lead to a considerable recovery in the price of cloth, and this circumstance will go far to compensate the English manufacturers for the falling off in the American demand.

It therefore appears that instead of a protective duty being chiefly paid, as American and other protectionists suppose, by foreign countries, such a duty must cause a much more serious loss to the community which imposes it than it causes to those countries who export the produce on which the duty is levied. Thus it has been shown in the foregoing example, that whatever loss might ultimately be caused to the English cloth manufacturers by an increase of the American import duties on cloth, this loss is, so far as the English people are concerned, accompanied by the advantage that they are able to purchase cloth at a somewhat lower price. One special branch of English trade is injured: whereas the general body of English consumers are benefited. In America, however, where the higher protective duty is imposed, exactly the reverse takes place. Whatever effect the increased duty may have upon the American cloth manufacturers, the increase of the duty causes a most serious loss to the American people.

The arguments that are adduced in favour of protection so habitually ignore the interests of the general consumer, that it is of the first importance to remember that in the case just investigated, the increase of the protective duty on cloth would not simply raise the price of imported cloth, but would produce a corresponding advance in the price of all the cloth which was purchased by the American people, whether of home or of foreign manufacture. If therefore, of the entire cloth used in America only one-twentieth were imported, the protective duty on cloth would impose a fine on the American people twenty times as large as the amount which the import duty yielded to the revenue. The injury therefore which is done to a foreign country by the imposition of a protective duty, is trifling compared with

the injury which the country imposing the duty inflicts on herself.

7. *A striking illustration is afforded of the opposite aspects under which the advantages of protection are represented by its advocates, when it is argued that the general body of consumers cannot be injured by protection, because profits and wages are not higher in the protected industries than in those which are not protected.*

The employment of such an argument is imprudent, because the fallacy which it involves can be readily explained; whilst the admission it contains, as to the equality of wages and of profits in protected and unprotected industries, affords a complete refutation of many of the arguments on which most reliance is placed by those who support protection. Such an admission in fact disposes of a very considerable number of the reasons which are ordinarily urged in defence of protection. If it is conceded that profits and wages are not higher in trades which are protected than in those which are not protected, it at once becomes evident, as we have attempted to show in a previous chapter, that if commodities are made dearer by protection, the loss which is thus caused to the consumer of these commodities is not counterbalanced by any special advantage being enjoyed by those who supply the capital and labour requisite to produce them. When the price of any product is increased through protection, the extra price does not represent higher profits or wages, but is simply an equivalent for increased cost of production.

In order to prove the fallacy involved in the argument that the consumer cannot be injured by protection because the imposition of a protective duty, in any branch of industry, does not increase its wages and profits beyond the average rate, it is only necessary to consider what would be the effect of again levying in England an import duty on corn. As previously explained, the inevitable effect of such a duty would be to raise the price of corn in England. Less

foreign corn would be imported, and more would be grown on our own soil. This rise however in the price of corn, as is admitted by the protectionists in the argument we are now considering, would not increase the profits of the farmer; the extra price which he received for his corn having to be devoted to pay the additional rent which now would be demanded from him, he would gain nothing; but the fact that he is not benefited, would not in the slightest degree lessen the loss which would be inflicted on the general body of the consumers; for, in consequence of the protective duty, everyone would find that he had to pay more for the bread he purchased.

8. *It is alleged that protection must be economically advantageous, because when a country produces commodities for itself, instead of obtaining them from abroad, the labour employed in transporting them is saved, and this labour is assumed to be unproductive.*

There is, however, not the slightest foundation for the assumption that the labour employed in transporting a commodity is in any degree more un-productive than the labour which is employed in actually producing it. The labour of the ploughman who ploughs the land on which wheat is grown, is not more useful or essential than is the labour of those who bring the wheat to the place where it is required for consumption. The finest fields of wheat would be perfectly worthless if the wheat had to be left on the fields where it grew. There may be millions of tons of coal at the pit's mouth, and this coal would be of no more use than if it had never been dug, unless there is labour to convey it to the places where it is wanted.

It is supposed that a coal-field extends under the entire town of Liverpool. If this is the case, it would be possible for the people of Liverpool to obtain coal close to their own doors. This coal, however, being at a much greater depth than the coal in other coal-fields in the locality, would be more expensive to work. Let it be assumed that the

additional cost of working the coal will be 5*s.* a ton, and that the cost of carrying coal from the coal fields which now supply Liverpool is 2*s.* a ton. It is obvious that this cost of carriage would be saved, if the coal immediately below Liverpool were worked. But in order to save this 2*s.*, 5*s.* would have to be spent; and therefore the net loss on each ton of coal used in Liverpool would be 3*s.*

It therefore appears that saving the labour employed in transporting produce is not necessarily economically advantageous, for the amount thus saved may be altogether inadequate to the increased cost involved in obtaining a commodity under more unfavourable conditions.

9. *Protection has been represented to the working classes in America as conferring a great benefit upon them, because it is said that wages are higher in the protected industries in America than they are in the same industries in free-trade England.*

Even if the difference in the remuneration of labour in the United States and in England had continued to be as great as it was formerly, it is obvious, after what was stated when considering the seventh argument, that this difference in wages could not have been due to protection. It was shown that protectionists themselves admit that wages are not higher in protected than in unprotected industries; consequently the greater remuneration which labour obtains in one country than in the other must be due to causes which are independent of protection, and which exert a similar influence upon all employments. A consideration of some of the more prominent features in the economic condition of England and America respectively will at once enable us not only to say what these causes are, but will also show that far from protection increasing the remuneration of labour in the United States, it is gradually depriving labour of so much of its productiveness, that it seems probable wages will soon be reduced there to the same level which they have reached in England.

The most striking point of difference in the economic position of England and the United States, is the comparatively small quantity of fertile land which is possessed by the former country in proportion to its population. The quantity of food which is grown upon English soil would be altogether inadequate for the support of its population; and each year we are becoming more and more dependent upon America to make good this deficiency in our supplies of food. It is calculated that the quantity of wheat annually consumed in England is about 22,000,000 quarters; the yield of our own harvest this year is estimated at 9,000,000 quarters. 13,000,000 quarters will consequently have to be imported, and by far the larger portion of this will be obtained from America. The quantity of meat, butter, cheese, and other articles of food which are annually imported from America is rapidly increasing. It is not, however, only with regard to food that England has so largely to depend on foreign countries for the supplies she requires. A great part of the raw material which is used in many of her most important manufacturing industries is not obtained from her own soil. For instance, a very large portion of the wool which is annually manufactured in England is of foreign growth; and the English climate not being suited to the production of silk and cotton, all the raw silk and raw cotton which she requires must necessarily be imported. So large a portion of this cotton is obtained from the United States, that the value of the raw cotton which is imported thence has in some years amounted to 30,000,000*l.* It therefore appears that the United States, when compared with England, enjoys the great advantage of possessing a more abundant and cheaper supply, not only of food, but also of the products which provide the raw material of the most important branches of manufacturing industry. It would seem necessarily to follow that wages and profits would both be much higher in the United States than in England. Fertile land is so plentiful in the former country,

that it can be obtained in any quantity for the payment of almost a nominal sum; whereas those in England who wish to cultivate land often have to pay in a single year, in rent, as much as would represent the fee-simple of land of the same quality in the United States. In the one country the entire produce of the land may be devoted to remunerate capital and labour; whereas in the other country a not inconsiderable portion of the produce has to be appropriated as rent. The amount which an English farmer has to pay in rent is often equivalent to the entire amount which he expends in wages. Consequently there will be a smaller aggregate sum left to be divided in the form of profits and wages amongst those who have supplied the capital and labour requisite for the cultivation of the land. It therefore appears that a higher rate of profits and wages must be yielded by agriculture in the United States than in England, and as it has been proved that wages and profits in different industries in the same country approximate to equality, it follows that capital and labour ought both to obtain a higher remuneration in the United States than in England. This higher remuneration is due to circumstances which are altogether independent of protection. It can, moreover, be shown that an influence of so exactly an opposite kind is exerted by protection, that at the present time it is imposing on the industrial classes in America a burden, which to a great extent is neutralising the advantages conferred upon them by the possession of those great natural resources to which attention has just been directed.

A change of the utmost significance has recently taken place in the economic relations between England and the United States. For many years a large stream of emigration continuously flowed from Great Britain and Ireland to America. Those who left were so well satisfied with their new home, that between 1847 and 1864, the Irish emigrants alone transmitted 10,000,000*l.* from America, to enable their friends and relations in the old country to go and share the prosperity and comfort which they were then

enjoying. It has, however, now come to pass that labourers seem nearly as desirous to leave, as they once were to reach, the United States. In 1877, a year of severe depression in England, the number of emigrants from England to the United States exceeded by only 603 the number who left the United States for England; and although in 1878 there was a certain revival of emigration to America, yet in that year the number of those who emigrated was only 54,600, or less than a third of the number in 1873.

It may of course be said that labourers have been induced to leave the United States in consequence of great depression in trade, but if trade is as depressed there as in England, the fact still remains that labourers are leaving the United States because the labour market of that country ceases to offer the same relative advantages as formerly. It therefore appears that American protectionists can no longer use the argument which was once employed with so much effect, that protection secures to labour the advantage of a higher remuneration than can be obtained in countries which have adopted free trade.

After what has been stated in a previous chapter, the prejudicial effect which must be exercised upon the remuneration of labour by such a protectionist tariff as that which is now maintained in the United States will be readily understood. A protective duty, by making the product on which it is imposed unnecessarily dear, virtually levies a tax from all those who purchase it. When the commodities which are subjected to such a duty are those in general use, the effect of the duty is precisely the same as if an income tax were levied from the entire community. Such a tax cannot be adjusted or equalised as is the case with the income tax in our own country. Small incomes cannot be exempted; for, however poor a man may be, the tax will fall with unerring certainty on all that portion of his income, or his wages, which is expended in the purchase of those articles which are protected. But this is not the only tax which protection compels a community to pay. When the

instruments and the plant of industry are made more costly, the products of that industry necessarily become more expensive. Iron, copper, and timber are, as we have seen, all made dearer in the United States by protection. Consequently the machinery which is made of copper and iron becomes more expensive; the cost of buildings also, in the construction of which iron and timber are used, is increased; and this being the case, those who pay a higher price for this machinery must be compensated by obtaining a higher price for the products which they manufacture; and those who erect the buildings will be able to claim an increased rent, in order that they may be adequately remunerated for the additional cost of their construction.**

Protection is thus in a thousand different ways perpetually taxing the American people. There is not one single branch of her industry on which it does not impose a penalty more or less severe. Its influence may be traced far and wide over the country. It increases the cost of the implements by which the land in the far west is tilled; it causes a higher rent to be paid by the poorest artizan, lodged in a back street of New York. The burden thus cast upon the industrial classes is so severe as to gradually neutralize her great natural advantages; and thus we find that though trade is depressed in England, it is still more depressed in America, and workmen are beginning to discover that although wages are nominally higher in the United States than they are in England, yet the American labourer has to pay so much more for house-rent, and many articles which he must purchase are made so unnecessarily dear, that with higher wages he is not so well off, as he would be with smaller wages in England.

10. *When protection has once been introduced into a country, it is argued that it should embrace as many industries as possible; because if only one industry were protected, the general public would receive no compensation for the higher price which they would have to pay for the product of this particular*

industry. If, however, protection embraces the entire industry of the country, each industrial class is in its turn benefited, and is amply compensated for the increased dearness of various articles.

This argument has been enforced with much ingenuity by M. Alby, a well-known French protectionist. He contends that if the iron interest alone were protected in France, the policy would be absolutely indefensible, because every one in France would have to pay more for iron in order to give an advantage to those engaged in the French iron trade; but he urges that this objection is entirely removed if all industries are equally protected. For instance, if the cloth trade is protected, the benefit which those engaged in it are supposed to derive, more than compensates them for the loss they have to bear in paying an increased price for iron. It has been shown with great clearness by the late Professor Cairnes,[1] that it is impossible to extend protection to all industries in the manner here contemplated; and even if such an extension were practicable, the compensation which it is assumed the community would receive, would be entirely illusory. It is obvious, in the first place, that this argument entirely overlooks the interests of the professional and other classes who obtain their incomes otherwise than by trade. A physician with 1,000*l.* a year, or a policeman with 1*l.* a week, would find that almost everything he purchased was made dearer by protection; while his income was in no way increased by it.

With regard to the impracticability of extending protection to all industries, it is only necessary to remark that in many industries there is no foreign competition, and it is consequently impossible to extend protection to them. For example, wine is not imported into France, and wheat is not imported into America. An import duty imposed upon wine in France, or on wheat in America, would therefore be of no advantage to the French wine-grower, or to the American farmer. They are consequently precluded from

[1] *Leading Principles of Political Economy*, p. 454 *et seq.*

receiving any compensation for the higher price which they are compelled to pay for the various articles that are made dearer through the operation of protective duties. But even if it were practicable to extend protection to the entire trade of the country, it can be readily shown that nothing would be gained even by those who were interested either as employers or employed in the various industries thus protected, as a set-off against the very serious loss which would be caused to the whole community. The only way in which the general rate of wages and profits prevailing in a country can be advanced, is to increase the productiveness of capital and labour. If more is produced by the expenditure of a given amount of capital and labour, there will be more to distribute in profits and wages. If less is produced there will be less to distribute, and profits and wages will be reduced. Whatever may be the social and political advantages claimed for protection, such for instance, as that it secures a diversified industry, and makes a community independent of foreign countries, its advocates do not attempt to maintain that it increases the productiveness of capital and labour. They are in fact forced to admit that if protection were regarded simply in its economic aspects it could not be defended; but they maintain that the social and political advantages which they suppose result from it, are more than sufficient to counterbalance the economic loss which is caused to a country by diverting a portion of its labour and capital to industries which can be carried on under less favourable conditions at home than abroad.

11. *Protection is defended in America and the Colonies on the ground that, as wages are higher there than in England, the American and Colonial traders require protection in order to place them in a position of equality with their English competitors.*

This claim for protection is evidently based on the assumption that the amount of wages paid to labourers is the only element of which account need be taken when

considering the cost of producing a particular article. The fallacy of such an opinion at once becomes apparent, when it is remembered that agriculture is the particular branch of industry in which the difference between the wages paid in England and those paid in America or Australia is the greatest. And yet it is in agriculture that America and Australia can without the slightest protection compete most successfully against England. The Illinois or Australian farmer has to pay his labourers at least three or four times as much as is paid by the Dorsetshire or Wiltshire farmer, and yet wheat can be produced much more cheaply in Australia or America than in England. It is therefore obvious that other circumstances, besides the amount of wages which may be paid, determine the cost at which any particular article can be produced; if this were not so, the American farmer would have a much stronger claim to protection against the cheap labour of England than the American manufacturer. The efficiency of labour must manifestly exert quite as much influence on the cost of production as the amount of wages which the labourers receive. The great abundance of cheap fertile land in Australia and America, so much promotes the efficiency or productiveness of the labour employed in its cultivation, that the cost of producing wheat and other agricultural products is much less than in England, where considerably lower wages are paid to farm labourers. Again with regard to mining industry, it is evident that various circumstances, such for instance as the richness of the mineral deposits and their depth from the surface, must exercise a far greater effect upon the cost of production than the wages which may happen to be paid to the miners. In manufacturing industry also, the possibility of one country obtaining raw material at a less cost than another, may more than compensate the additional expense which may be thrown upon the manufacturers of the former country by the payment of higher wages. With regard to America and Australia, it is

to be particularly noted that the great natural resources which they possess must confer upon them many advantages in industrial competition of which there is no probability that they can be deprived. Their almost inexhaustible supplies of fertile land give them advantages such as are possessed by scarcely any other country. Their mineral resources are so great that if they suffer from foreign competition, it must be through their own want of skill and enterprise. Even in manufacturing industry, where it is supposed that protection is most needed, it must be remembered, that as England imports large quantities of cotton from America, and of wool from Australia, these countries must with regard to some most important branches of manufacturing industry enjoy the advantage of cheaper raw material. It is moreover deserving of special remark, that the difference in wages in countries between which there is an extensive migration of labour must constantly diminish. When emigration has continued for some time, the objections to it are sure gradually to lessen; it becomes much more of a national habit, and the prospect of a comparatively small advance of wages may be sufficient to induce people to leave their own country, if they think they shall be settling amongst friends and relations, which would prove altogether inadequate if they had to seek a new home amongst strangers. This increasing readiness to emigrate must exert an equalising influence on wages, and must cause the difference in wages in the two countries, between which the emigration takes place, steadily to diminish. So much is this the case with the United States, that, as previously pointed out, it is now considered that the remuneration received for various kinds of labour is higher in England than in the United States; and a year or two ago there was nearly as much emigration from America to England as there was from England to America. When the remuneration of labour has ceased to be higher in America than in England, when skilled workmen such as masons are

found willing to come from New York to work in London for wages which are refused by English masons, there cannot be a shadow of pretext for demanding protection on the ground that the American employer has to pay a higher price for labour than his English competitor. If with labour as cheap as it is in England, if with the unequalled natural resources, inexhaustible supplies of coal, iron and almost every other mineral, boundless tracts of fertile land, unsurpassed facilities for internal navigation; if with these and countless other advantages the American manufacturer is unable to contend with his foreign competitors, it must be because he and those he employs are deficient in skill and energy, and are wasteful of the great gifts with which their country has been endowed.

12. *Another argument against free trade is that protection having been once established cannot be abolished without causing great loss both to employers and employed in those trades which have been protected.*

It cannot, I think, be doubted that the loss which might be inflicted upon many special trade interests by the abolition of protection constitutes by far the most serious obstacle in the way of the general adoption of free trade. Exaggerated estimates are no doubt formed of the loss which would be actually caused; but however great may be the stimulus which free trade would give to the prosperity of such a country as the United States, it would in my opinion be impossible suddenly to abolish protection without causing considerable loss to the employers and employed in many trades which, through its aid, had been fostered into a kind of unnatural existence. No industrial change, however beneficial, has ever been introduced without causing some loss and inconvenience to certain special classes. The mechanical inventions which have done most to enrich mankind, were not brought into general use without causing great loss and suffering to many whose labour they supplanted. Seldom has a class endured more severe hardships

than were borne by our handloom weavers, during the years that they carried on a prolonged and hopeless struggle, striving in vain to compete with products which were made by machinery at a far cheaper rate. Even stage-coaches could not be superseded by railways without some individuals being injured by the change. Although the aggregate wealth of the country was enormously increased, yet in certain special cases property which was before of great value became almost worthless. Along the roads which used to be our great thoroughfares, are still to be found the remains of large inns and posting-houses which formerly let for many hundreds a year; but immediately the railways drew away the traffic these inns so entirely lost their custom that they had scarcely any value at all; many of them were pulled down, and others were converted into cottages. Any attempt to oppose the use of a mechanical invention, because of the loss which it may cause to certain individuals, meets with almost universal disapprobation. Nothing it is maintained can be more unreasonable than to allow the temporary interests of a few to stand in the way of the permanent advantage of the entire nation. If this principle holds good with regard to the benefits conferred upon a nation by the introduction of a mechanical invention, it holds equally true with regard to the still greater benefits which a nation will derive from the adoption of an unrestricted commercial policy.

13. *Protection can be advantageously introduced into a young country as a temporary expedient, since various industries which will ultimately prosper without protection require its aid in the early stages of their existence.*

This argument in favour of protection, which has been reserved to the last for consideration, is deserving of special attention, not only because of the great weight which is attributed to it by the advocates of protection in the Colonies and in the United States, but also because it has obtained a great amount of importance from the support

it received from the late Mr. J. S. Mill. In a passage which protectionists at the present day so repeatedly quote that they seem almost to regard it as the charter of their policy, Mr. Mill says:—

"The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production often only arises from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire may in other respects be better adapted to the production than those which were earlier in the field: and besides, it is a remark of Mr. Rae, that nothing has a greater tendency to promote improvements in any branch of production than its trial under a new set of conditions. But it cannot be expected that individuals should at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burden of carrying it on until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protectionism should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."[1]

[1] See *Principles of Political Economy*, by J. S. Mill, fifth edition, vol. ii. p. 525.

There is no one more ready than I am to recognise the high authority of Mr. Mill as an Economist, and I will at once admit that the arguments which he advances in favour of the imposition of protection in a young country would be conclusive if there were a reasonable probability that the conditions under which he supposes that such a protective duty could be imposed would ever be realized. It will be observed in the passage above quoted that he is most careful to explain that protection can only be justified as a temporary expedient; and every word which he says in support of protection rests on the supposition, that when an industry has been fairly established the protective duty will be at once voluntarily surrendered by those who are interested in the particular industry. It is, however, incontestably shown by what has happened in the United States and other countries where protection has been long established, that it is absolutely impossible to impose a protective duty under the stipulations on which Mr. Mill so emphatically insists. Whatever professions may be made by those who first ask for protection that it is only required for a limited period, and that it is only needed to enable an industry to tide over the obstacles which may beset its first establishment, it is invariably found that when an industry has once been called into existence through protection, those who are interested in it, whether as employers or employed, instead of showing any willingness as time goes on to surrender protection, cling to the security and aid which they suppose it gives their trade with ever-increasing tenacity. This is shown in a very striking manner by the experience of nearly a hundred years of protection in the United States. In no single instance has a protective duty when once imposed in that country been voluntarily relinquished. Far from any tendency being shown by those who are connected with the industries which enjoy protection to face free competition, they constantly display a feeling of greater dependence, and demand with reiterated

urgency additional safeguards against their foreign rivals. A well-known American economist, Professor Sumner, has said: "Instead of strong, independent, industries, we have to-day only a hungry and clamorous crowd of 'infants.'" Again, Mr. Wells, with equal force, has remarked: "Although the main argument advanced in the United States in support of protective duties is that their enactment is intended to subserve a temporary purpose, in order to allow *infant* industries to gain a foothold and a development against foreign competition, there has never been an instance in the history of the country where the representatives of such industries, who have enjoyed protection for a long series of years, have been willing to submit to a reduction of the tariff, or have voluntarily proposed it. But, on the contrary, their demands for still higher and higher duties are insatiable and never intermitted."[1]

No amount of theoretical reasoning as to the desirability of imposing a protective duty, as a temporary expedient in a young country, can outweigh the warnings derived from experience that no security can be provided against the permanent continuance of a protective duty when it has been once imposed. If after protection has been in operation for nearly a hundred years in the United States, the various protected interests display a growing determination to resist any change in the direction of free trade, what reason is there to suppose that what has happened in America will not in future years occur in Australia and other countries, if they should carry out the policy which now seems to find favour with them, of calling into existence various branches of industry by the imposition of protective duties?

It is sometimes said that a country may safely adopt a protective policy, because when the proper time arrived free trade took the place of protection in England. It has however already been shown that the introduction of free trade

[1] *Cobden Club Essays*, second series, 1871, p. 529.

into England was brought about by events so exceptional in their character, that a protective system when once established in other countries cannot be assailed with the same weapons by which its overthrow was effected in England. Agriculture was the industry which, more than any other, was protected in England against foreign competition. In all the countries however, such as America, Germany, France, and Australia, in which protection now finds favour, it is chiefly confined to manufacturing industry. All these countries are large exporters of food, whereas England is only able to obtain from her own soil a portion of the food which her people require, and consequently is to a great extent dependent upon foreign supplies. When protection, by interfering with the free importation of food, makes food dear, and in a period of national distress deprives the mass of the people of their supply of a first necessary of life, an amount of popular indignation can be excited against the continuance of a system of restriction, which cannot be aroused against it when the results it produces that can be most tangibly brought home to the people, are that it makes various articles of wearing apparel and household furniture dearer. It has been previously shown that an addition to the price of certain articles in general use, represents only a very small portion of the mischief which is produced by such a protective system as that which is maintained in the United States. Amongst other evils which result from protection, it has, for instance, been proved that it places obstacles in the way of the general prosperity of the country; that it exerts an influence in lessening the remuneration obtained by capital and labour; that it discourages industrial enterprise by weakening the feeling of self-reliance; and that it fosters political corruption by inducing various trade interests to use their influence in securing the imposition of duties specially to benefit themselves. These and other evils, inseparably associated with protection, although they inflict an incalculable injury upon a country, are not brought home to the

general body of the people with the same distinctness as when, in every humble English home, those who were pinched by hunger could be made to feel that a corn law was in operation which kept from them the food which they so urgently needed.

Nothing can be more unfortunate than if the people of a young country like Australia, who seem to be contemplating the imposition of protective duties, should be misled by the example of England, and suppose that they would be easily able to return to a policy of free trade whenever the industries, which they hope to call into existence by protection, are once fairly established. England instead of affording an example to be copied, should furnish rather a warning of that which is to be avoided. Great as was the injury which protection inflicted on England, there seems every probability that the policy of commercial restriction might have continued in operation for an indefinitely longer period, had it not been for the wide-spread misery which was caused by the Irish famine. So strong was the position of those who were interested in the various monopolies, which had been called into existence in England by protection, that only two or three years before protection was abolished some of the most prominent advocates of free trade in England almost despaired of success. When it is thus seen that it required such a national catastrophe as the sweeping away of tens of thousands by starvation, to destroy protection in England, the Australian people should feel that if they allow a system of industrial monopoly once to take root in their country, they may have, before it can be got rid of, to pay a penalty not less severe than that paid by the people of our own country before they were able to introduce free trade.

Protection wherever it is once established, never fails, for reasons previously described, to obtain a firm hold. There is no reason why protection if once introduced into Australia should not in future years become as strongly established

as it now is in the United States. Those who are engaged in all the various industries which are protected, are sure to feel that they are deeply interested in the continuance of the system; and Australia would experience the same difficulty that is now found in the United States in resisting so powerful a combination of interested opposition.

Enough has now been said to show the extreme peril which would be incurred by any country which should adopt a protectionist policy on the plea that it is only resorted to as a temporary expedient. With whatever plausibility such an argument may be advanced, all experience proves that when the paths of restriction have once been entered upon, it becomes increasingly difficult for a nation to retrace her steps. But even if there were any foundation for the opinion of those who apparently believe that protection would be surrendered when the proper time came for its abandonment, I think there is good ground to suppose that the industrial development of a country would be far more surely promoted by freedom than by restriction. Directly the principle is sanctioned that certain special industries are to be fostered by the State, the trade of a country at once ceases to be regulated on purely commercial considerations, and is placed under official and political guidance. The State, in fact, is made the arbiter and superintendent of the entire industrial economy of the country. The State decides what industries shall be called into existence by protection, and determines what is the exact amount of encouragement that shall be given to each particular trade. It is impossible to imagine that any government can be qualified to discharge such functions; but even if it were qualified to do so, no one can doubt that in determining the exact amount of protection which should be given to particular trades, whether in one instance the duty should be 10 per cent. and in another 20 per cent., the political influence which would be brought to bear by special interests would exercise a far more potent

effect than any conclusions which might be arrived at from carefully weighed industrial considerations.

No one who observes what are the most prominent characteristics in the economic condition of such a recently settled country as Australia, can doubt that if industry is there left to its own natural development various trades and manufactures, which it is sought artificially to stimulate by protection, are sure gradually to be established without its aid. The Australian protectionists say that they want protection in order to enable them to compete against cheap English labour. But the remarkable prosperity which is at the present time enjoyed by their own most important branch of industry, agriculture, conclusively proves that the higher wages paid in Australia ought to be regarded as a measure of the greater natural advantages which she possesses. If the mere fact of having to pay higher wages constituted a claim for protection, the Australian farmer who has to pay wages three or four times as high as are generally received by English agricultural labourers, would not be able to carry on his industry unless he were protected against foreign competition. It is scarcely necessary, however, to remark that although very high wages are paid to farm labourers in Australia, fertile land there is so cheap and abundant that many agricultural products, such as wheat and wool, are produced at a cheaper rate in Australia than they are in England. Large quantities of these articles are annually exported from the one country to the other, and thus it appears that Australia with dearer labour is able to undersell England with cheap labour, even in the English market.

Every circumstance which at the present time impedes the extension of manufactures in Australia will be certain, with the progress of the country, to exert less and less influence, if no commercial restrictions are permitted to interfere with the free development of her industrial economy. The population of Australia is rapidly advancing, and with this advance in population labour will not

only become cheaper, but as its supply increases, there will be a larger surplus available for employment in other industries besides those on which her labour and capital are now chiefly concentrated. Moreover, it must be borne in mind that the English people are gradually becoming more accustomed to emigration. They are now much less disinclined than they were formerly to leave their own country. Emigration to Australia was once regarded almost as banishment to a strange and unknown land. English agricultural labourers used to be in such a condition of ignorance and dependence that they went on year after year working for a miserable pittance of 8*s.* or 9*s.* a week; they were so deficient in enterprise, and were reduced to a state of such utter helplessness, that they would continue clinging to their own wretched poverty at home, being unwilling or incapable of taking advantage of the prosperous future that was offered to them in other lands. Within the last few years, however, there has been a most remarkable change. The English agricultural labourer, stimulated by various circumstances, such as the spread of education, is rapidly rising from his former condition of torpor and helplessness; he is beginning to show as much readiness as other labourers to take advantage of any opportunity that may be offered him of improving his condition. It is also to be remembered that each one who emigrates and finds success in his new home, stimulates others to follow in his footsteps. Tidings of the prosperity which he is enjoying are brought to the village which he has left; and a great part of the disinclination which is naturally felt to settling in a new country passes away when it is felt that the new home will be amongst friends and relations, and not entirely amongst strangers.

This increasing readiness on the part of the English labouring population to avail themselves of any opportunity which may be offered to them of improving their condition by settling in a new country, must inevitably cause the

remuneration of labour to approximate more nearly to an equality in England, and in the countries which are mainly peopled by her emigrants. If therefore matters are allowed to take their own natural course, any difficulties which may now impede the establishment of manufacturing industries in Australia will steadily diminish and ultimately pass away. On the other hand, if the industrial economy of that country once becomes involved in the trammels of a wide-spread system of protection, every article on which a protective duty is imposed will be made artificially dear, and the cost of living will be materially increased. English labourers will fail to obtain the advantages from settling in Australia which they might otherwise enjoy. Emigration will consequently be checked, and the result of a protectionist policy must inevitably be to deprive, to a great extent, such a country as Australia of those additional supplies of labour, which above all things are essential for the successful establishment of manufacturing industry. Australia should in time be warned by what is now occurring in the United States. Until quite recently America was regarded as the most favourable field for English emigration. Although wages are still in many industries nominally much higher in the United States than they are in England, yet the general cost of living has been so greatly increased in the United States by the imposition of onerous protective duties on almost every article of general consumption, that labourers find that they are scarcely so well off there as they are in England with lower wages; consequently, as already pointed out, the extraordinary fact has lately occurred that nearly as many labourers were leaving the United States as were settling in that country. At the time, however, when emigration from England to the United States was thus almost counterbalanced by a flow of population in the opposite direction, there continued to be a steady stream of emigration from England to Australia. In 1877 more than 30,000 persons, of whom a large proportion belonged to the agricul-

tural labouring class, emigrated from England to Australia, and less than 5,000 returned. If, however, a policy of protection should once be commenced in Australia, it will surely and rapidly spread. All experience shows that it is impossible to confine protection within narrow and well-defined limits. If one trade obtains what is considered to be the benefit of protection, a powerful inducement is immediately offered to a countless number of other trades to demand that similar privileges should be conferred upon them. With the imposition of each fresh protective duty some article would be made dearer, and thus as the system became generally extended, that would surely occur which has already happened in America; the cost of living would be so much increased that English labourers would be no better off than they are in their own country; emigration would cease, and Australia would lose that supply of labour which will not only do so much to create a home demand for her produce, but which she needs for the adequate development of her great natural resources.

Having now discussed in sufficient detail all the leading arguments that are advanced in support of protection, I will next proceed to consider to what extent the commercial depression which has lately so generally affected industry can be traced on the one hand to the adoption of a policy of free trade, or, on the other hand, to the maintenance of a system of protection.

CHAPTER V.

COMMERCIAL DEPRESSION.

THE very serious depression which has affected the trade of so many countries during the past three or four years has given a new interest and vitality to a discussion as to the relative advantages of protection and free trade. This commercial depression seems to be producing exactly opposite effects on public opinion in the United States and England. In the former it is undoubtedly to a considerable extent undermining the confidence which many before felt in the efficacy of protection to secure prosperity; while in England, where scarcely any one until lately ventured to utter a dubious word with regard to the benefits conferred by free trade, an inclination is now being shown in many quarters again to lapse into some of the fallacies of protection.

Allusion has already been made to the fact that in many English chambers of commerce, resolutions have been recently passed in favour of reciprocity. What is termed "one-sided free trade" has been strongly condemned by some of those who were, until recently, the stoutest defenders of the principles of unrestricted commerce. The opinion certainly seems to be spreading, that a country commits an act of foolish self-sacrifice, if she persists in opening her markets freely to the products of other countries, when her own products are excluded from

foreign markets by protectionist tariffs. This change in public opinion, far from exciting any surprise, may be regarded as the natural result of the manner in which the advocates of free trade and protection respectively have in former years pleaded their cause. Before the present commercial depression, the trade of England had, for a quarter of a century, uninterruptedly advanced with unprecedented rapidity. In the days when we were enjoying this prosperity it used to be perpetually referred to, as affording a conclusive proof of the extraordinary advantages conferred upon a country by free trade. The many other circumstances which have assisted in producing this prosperity were very generally ignored; the statistics of increasing exports and imports were triumphantly appealed to with confidence that nothing more was required for the vindication of free trade, and for the refutation of the doctrines of protection.

Such a mode of considering the subject, naturally accustomed people to the idea that the commercial progress of England was wholly due to free trade; consequently many of those who, in prosperous times, were foremost in expressing their approbation of free trade, are now the first to blame it for the depression which has fallen upon the commerce of the country. Exactly the reverse of what has occurred in England is happening in the United States. Until quite recently the United States enjoyed a prosperity scarcely inferior to that of England. Although, as I have endeavoured to show, she enjoyed this prosperity, not in consequence, but in spite of protection, it was not unnatural that as long as this prosperity continued, the people of the United States were induced to believe that it was the result of protection. It could be plausibly urged that simultaneously with a great development in her trade and a remarkable increase in her wealth, her tariffs had become more and more protective in their character. Since 1789 the tariff of the United States has been altered no less than

forty times, and the tendency of the great majority of these changes has been to make her fiscal system more protective in its character. At the commencement of this period the import duties imposed, averaged about 8½ per cent. with the term of protection limited to seven years; these duties have been steadily increased until they now are 40, 50, 60, and even, in some instances, 125 per cent. Nothing consequently could be easier than inseparably to associate as cause and effect in the popular mind, increased protection and growing prosperity. Now that depression has fallen upon the trade of the United States, even more severe than that which has fallen upon the trade of England, a revulsion of feeling has occurred there similar to that which has taken place in England. The people having been in prosperous times taught to believe that the condition of the commerce of their country was far more powerfully influenced by protection than by any other agency, not unnaturally in adverse times single out protection as the chief cause of commercial depression. So long as prosperity continued, the protectionists in the United States held a position which appeared to be unassailable. Until recently there seemed to be every probability that the tariff of the United States would gradually be made more protectionist. A remarkable change in public opinion has lately taken place, and at the beginning of last year a new tariff was proposed, much less restrictive than that which is now in operation. According to this tariff, import duties generally would be reduced to about 25 per cent. Many articles, especially the raw material of various manufacturing industries, would be admitted duty free, and the number of articles liable to import duties would be diminished from about 2,000 to little more than 500. Although this tariff did not become law, the amount of support it obtained in the United States may be regarded as affording an indication that the American people are beginning to lose some of their faith in protection.

It will not be difficult to show that nothing connected with the present commercial depression should cause the English people in the slightest degree to waver in their attachment to the principles of free trade. If commercial depression had alone fallen on those countries which maintain a free trade policy, or if the severity of this depression could be shown to be in any way proportionate to the extent to which the commerce of a country was unrestricted, there might be then some justification for the demands which are now in certain quarters made, that we should relinquish our present commercial policy in favour of some form of protection, such for instance as the imposition of reciprocal duties. But however severe may be the depression from which England and other free trade countries are suffering at the present time, the depression has certainly been much greater in the United States and in other countries where protective duties are maintained. If the present commercial condition of England is compared with that of the United States, the comparison is to a remarkable extent in favour of the former country. No country in the world has greater or more varied natural resources than the United States. She possesses a boundless extent of fertile land; her supplies of coal, iron, copper, and other minerals are practically inexhaustible: her means of internal communication are unsurpassed; within her own boundaries there is almost every variety of climate from the temperate to the tropical, and consequently there is hardly any product that cannot be raised from her soil; and yet with all these natural advantages, although her population at the present time exceeds that of Great Britain by at least 25 per cent., her aggregate foreign trade is only about one-third of the foreign trade of England. In 1877 the aggregate exports and imports of the United States were 219,500,000*l.*, whereas in the same year the exports and imports of Great Britain were no less than 646,700,000*l.* Throughout the present period of commercial depression there has been a considerable falling off

in the amount of produce imported into the United States. Her imports between 1874 and 1877 have fallen from 113,000,000*l.* to 90,000,000*l.*, representing a reduction of about 20 per cent. During the same period the imports into England, instead of diminishing, have slightly increased in value, and consequently the capacity of the English people to pay for foreign produce has not been materially affected by the present decline in industrial prosperity. There has no doubt been a falling off in the export trade of England, but this decline is by no means so serious as at first sight it might be supposed to be. Between 1860 and 1870 there was an extraordinary increase in the export trade of England. During this period the exports advanced from 164,500,000*l.* to 244,000,000*l.*, and at the present time, when the depression of trade is most severe, the exports from England are 8,000,000*l.* a year more than they were in 1870. It therefore appears that the steady progress of English trade has not been arrested. All that has happened is that her trade has not been maintained at the abnormally high point to which, during two or three years after 1871, it was to a great extent artificially forced, by a speculative demand so unsound that it could not be permanently continued.

In bringing forward the foregoing statistics of the foreign commerce of the United States and England, I do not wish it to be supposed that I attribute the remarkable difference in the trade of the two countries solely to the fact that the one maintains a protectionist tariff, whereas the other has adopted a free trade policy. As, however, the opinion is so frequently expressed, that the depression from which English industry is now suffering is due to free trade, it is well to point out that this depression has fallen far more heavily upon the United States where protectionist principles are carried out in their most extreme form. Nothing can more conclusively show this than the fact to which reference has already been made, that the advantages which

were once offered to labour by the United States, compared with the advantages offered by England, have now so greatly declined that the number of English labourers who settle in the United States scarcely exceeds the number of those who leave the United States for England. However great, therefore, may be the depression of trade in England, it must be relatively much greater in the United States. Before the depression commenced, the demand for labour in the United States was so active, and wages were so high, that tens of thousands of labourers were attracted there from England. In the five years from 1869 to 1873, the number of persons emigrating from Great Britain to the United States averaged more than 200,000, and during this time there was scarcely any emigration from the United States either to England or to any other country. Now, however, employment in the United States has become so scarce, the falling off in the demand for labour is so much more serious than it is in England, wages have been so much reduced, and at the same time the cost of living is so much increased by the high prices caused by protective duties, that labourers are returning in great numbers to England, even at a time when English trade is exceptionally depressed.

Some hesitation might be felt with regard to the soundness of the principles of free trade, if it could be shown that in a time like the present, industrial depression fell least heavily upon those countries whose tariffs were most protectionist. What is happening, however, is exactly the reverse of this; for at the present time, no country maintains such high protective duties as the United States; and in no country has depression been so severely felt, especially in those very industries which have been most carefully protected against foreign competition. The temporary falling off in the export trade of England is due to a general decline in the foreign demand, and has not been in the slightest degree produced by our being driven out of neutral

markets by the competition of protectionist countries. It was shown in a previous chapter, that of the exports sent from America to England, at least nine-tenths consist of agricultural produce, and the raw material of our manufacturing industries. A further examination of the export trade of the United States shows that what is true of her exports to England, is true of her exports to all the rest of the world. The commodities which other countries buy of her are almost entirely agricultural as distinguished from manufactured products. The exports of the United States consist chiefly of such agricultural products as raw cotton, wheat, tobacco, meat, &c. In 1877 out of her entire exports of 125,500,000*l.*, the following table shows that no less than 97,300,000*l.* consisted of such products as those just mentioned :—

VALUE OF AGRICULTURAL PRODUCTS EXPORTED FROM UNITED STATES. 1877.

Cotton, raw	£34,200,000
Wheat and Flour	13,700,000
Corn, Indian	8,300,000
Bacon and Hams	9,900,000
Lard	5,100,000
Cheese	2,500,000
Pork and Beef	2,700,000
Petroleum, refined	11,000,000
Petroleum, crude	700,000
Oilcake	900,000
Tallow	1,500,000
Tobacco, unmanufactured	5,700,000
Hops	400,000
Furs	700,000
	£97,300,000

These figures contrast in a very striking manner with the comparatively trifling value of the manufactures which

are exported from the United States. Much vague alarm is not unfrequently expressed in England that ruin will be brought upon our manufacturing industry by American competition. If a bale of cotton goods or some machine of American construction is offered for sale in England, the fact is sure to be carefully chronicled as if it were one betokening impending disaster to our trade. The following table, which shows the amount of the chief articles of manufacture exported by England and the United States respectively, clearly proves how groundless are the fears that with regard to manufacturing industry England is being defeated either in her own or in foreign markets by American competition:—

VALUE OF PRINCIPAL MANUFACTURED ARTICLES EXPORTED FROM ENGLAND AND THE UNITED STATES RESPECTIVELY IN 1877:—

	ENGLAND.	AMERICA.
Manufactures of Cotton . . .	£69,220,000	£2,040,000
Iron, and manufactures of . .	18,580,000	930,000
Machinery, including steam and other engines, agricultural implements, and, in the case of America, sewing machines .	7,120,000	1,370,000
Linen and Jute Yarn	1,500,000	
,, ,, manufactures .	7,390,000	
Silk Yarn and manufactures. .	2,270,000	
Woollen and Worsted Yarn and manufactures	20,940,000	
TOTAL	£127,020,000	£4,340,000

The exports (if any) of the last four commodities from America are too insignificant to be given in the "Table of

the Principal Articles Exported from the United States."[1] The figures just enumerated show with striking distinctness that the present depression in English trade cannot be in the slightest degree attributed to American competition. The export trade of the United States may, on the contrary, be regarded as conferring on England unmixed benefit. From the United States we obtain not only the raw material of many of our most important branches of manufacturing industry, but we also derive supplies of food, which are essential to the comfort and well-being of the country.

Reference has already been made to the circumstance that during the continuance of the present industrial inactivity, there has been no decline either in the value or the quantity of the goods imported into England. It therefore appears that the English people are as large purchasers and consumers of foreign products as they were before this depression in trade commenced. From this and other facts, to which reference will presently be made, I think the conclusion may be fairly drawn that the effect of this depression on the general prosperity of the country has been very considerably exaggerated; and that although those engaged, whether as employers or employed, in certain special trades, have been very seriously affected, yet there is nothing in the general condition of the country to excite apprehension. In the meantime, however, it may be desirable to direct attention to the fear which has lately been expressed, that the maintenance of our import trade at its present high point, now that there is a certain diminution in exports, is a subject for grave misgiving, and shows that the seeds of future mischief are being sown which are certain hereafter to bring disaster upon our national industry. These fears have their origin in the large excess which there is at the present time in the value of the goods which are imported by England, compared with the value of goods exported. Taking the figures of the latest year

[1] See *Statistical Abstract for Principal Foreign Countries*, 1878, p. 85

(1877), for which they are given in the *Statistical Abstract*, issued by the Board of Trade, it will be seen that this excess amounts to no less a sum than 142,000,000*l.* Recalling the language, and possibly also reviving some of the fallacies of the mercantile system, it is apparently by some supposed that the balance of trade, being, as it is termed, so unfavourable to England, is an indication that at the present time the nation is living beyond its means; that the English people are annually spending more than they earn, and that, in order to make good the deficit, we are gradually using up our savings and devoting capital to income. The maintenance of our imports at a time of industrial depression, instead of being regarded with satisfaction, should rather, it is argued, be considered as a measure of the prodigality with which the people are living, and with which the nation is exhausting its resources. Those by whom these opinions are entertained seem to find additional cause for alarm in the fact that in no other country is there any considerable excess of imports as compared with exports, while in some countries the exports considerably exceed the imports in value. Thus, in the United States, this excess of exports over imports is 16,600,000*l.* In India it is about 13,500,000*l.* I think, however, it can be shown that the maintenance of the present large import trade of England, far from indicating that there is anything unsound in her national economy, may be fairly regarded as one of the most satisfactory features in her present condition.

In the first place, it is to be remarked, that in preparing a statistical table of exports and imports, the value at which any article which is imported is estimated includes the cost of carriage, and the profits of the merchant who imports it: whereas, in estimating the value of exports, both the cost of carriage and the profits of the exporting merchant are excluded. Thus, if a quarter of wheat is bought at New York at 40*s.*, and the cost of shipping this

wheat from New York to Liverpool is 4*s.*, and the profit of the importing merchant is 2*s.*, its value when imported is reckoned at 46*s.* In order, however, to show the different manner in which the value of exports is estimated, let it be assumed that a merchant buys a thousand pounds worth of machinery for shipment to Australia; the value of this machinery in forming a table of exports would be stated at 1,000*l.* But in estimating the amount which Australia has to transmit to England for this machinery, account has to be taken not only of the freight, but also of the exporting merchant's profits. Suppose that the freight is 100*l.*, and that the profit is 150*l.*, Australia will pay 1,250*l.*, and England will receive an amount exceeding by 25 per cent. the amount stated to be the value of the machinery exported. As by far the greater part of the foreign trade of England is carried on in her own ships, and by her own merchants, it follows that England receives for her exports an amount considerably larger than is represented by the value of these exports, because, in addition to their value as given in at the port from which they are shipped, there is to be added the cost of carrying them to the various countries to which they are exported, and the profits of the merchants who export them. On the other hand, from the amount which England has to pay for her imports, there is to be deducted the cost of bringing them from the countries from which they are imported. Thus, for the quarter of wheat which is imported into Liverpool from New York, and which is entered as worth 46*s.*, England has to pay America only 40*s.*; the remaining 6*s.* is received by the English shipowner and the importing merchant. England therefore has to pay to foreign countries, for the goods she imports from them, an amount very considerably less than is represented as the declared value of these imports. On the other hand, she receives from foreign countries, for the goods she exports, an amount which is much greater than that which is represented as the declared

value of these exports. It would therefore follow that even if the amount which she has thus to pay for her imports were exactly equal to the amount which she receives for her exports, there would in the Board of Trade returns still appear to be a considerable excess in the value of the imports when compared with the value of the exports. Far, however, from the existence of such an excess being an indication that England was living beyond her means, and was being drained of her resources, it would simply show that our foreign trade was chiefly carried on by our own merchants and by our own shipowners, and that they were enjoying the profits resulting from this trade.

As previously explained, the foreign commerce of the United States, with regard to the relative amount of imports and exports, is exactly in the opposite position to that of England. The value of goods exported from the United States largely exceeds the value of those imported; this is to some extent due to the fact that a great part of the foreign trade of the United States is carried on by English merchants and English shipowners; a considerable portion of the profits resulting from this trade has thus to be transmitted to England, and this makes an important addition to her aggregate imports. "The international commerce of the United States is at present mainly carried on in foreign bottoms, which took over 70 per cent. of the aggregate imports and exports of the fiscal year 1874-75. Previous to the year 1860, from 75 to 80 per cent. of the total commerce was carried on in vessels belonging to the United States."[1] In striking contrast with these figures it appears that in 1877 of the aggregate tonnage entering English ports, 70 per cent. belonged to British owners, and only 30 per cent. belonged to foreign owners. When, therefore, apprehension is expressed that England is in an unsatisfactory position compared with the United States, because her imports are so largely in excess of her exports, it should

[1] See *Statesman's Year-Book*, 1879, p. 602.

be remembered that a considerable part of this excess is due to the fact that her mercantile marine is so extensive that not only the greater part of her own foreign trade, but of the foreign trade of other countries, is carried on in English ships. This, far from giving any just cause for alarm, should make us feel renewed confidence in the principles on which our present commercial system is based.

There is also another circumstance which causes the aggregate of England's imports to be considerably in excess of her exports. No other country has so large an amount of capital embarked in various foreign investments. Although it is impossible to form an exact estimate of the amount of English capital which is invested, not only in foreign loans, but also in various industrial undertakings, such as foreign mines, railways, banks, shipping companies, etc., yet it cannot be doubted that the interest which has to be annually remitted to England on the capital thus embarked represents a very considerable portion of the amount by which her imports exceed her exports. It has been calculated by competent authorities that the balance annually due to England as interest on capital invested in India and in America alone, is about 30,000,000*l.*,[1] and this debt has to be liquidated by these countries sending to England either goods or bullion. Hence the amount of the exports sent to England from America and India must not only be sufficient to pay for the goods imported from England, but must also be sufficient to pay the interest on the large sums of English capital invested in America and India. Those countries, therefore, which are largely in debt to foreign nations, must export more than they import; and in those countries which possess surplus capital and lend it abroad, the imports will exceed the exports. Consequently, the comparisons unfavourable to England which are often made by American protectionists between the industrial position of their own country and that of Eng-

[1] See *Economist*, December 15, 1877.

land, because of the large excess of English imports over exports, have so little foundation, that this excess may be regarded as affording evidence of the great extent to which they and other countries have been assisted by English capital.

Nothing can be more erroneous than to conclude that the foreign commerce of a country is in an unsatisfactory position, and that she is being drained of her resources, if it is observed that imports are largely in excess of exports, when, as in the case of England, the foreign trade of a country is chiefly carried on by her own merchants and in her own ships, and when the amount of wealth accumulated by her people is so great that it not only suffices to supply capital for her own industry, but a large surplus annually remains to be lent to foreign governments, and to be employed in various foreign undertakings. The dread and alarm about imports exceeding exports, and about the balance of trade being unfavourable to a country, may no doubt be considered as a survival from the time when the principles of the mercantile system obtained almost universal acceptance. Thus from the remarks that are frequently made about an excess of imports, it seems to be by many supposed that when imports are in excess of exports a nation must be pursuing just the same career of extravagance as an individual who is living beyond his means, buying more than he sells, and thus steadily getting into debt. American protectionists have lately been expressing great satisfaction because the exports from their country exceed in value the imports; they apparently consider that in this respect the industrial condition of their country compares most favourably with that of free trade England. In the opinion of the French protectionists there seems to be no weapon with which the renewal of the Commercial Treaty with England can be so effectually assailed, as to point out that under the operation of that treaty the trade of France has been so entirely changed, that whereas her exports were formerly in

excess of her imports, and she was thus enriched by foreign commerce, now her imports exceed her exports, and she is consequently being drained of her resources. It can, however, be readily shown, after the explanation which has been given of the circumstances which cause the imports of a country to exceed her exports, that the present position of the foreign commerce of the United States and France, far from affording any justification for a protectionist policy, may be regarded as greatly strengthening the case in favour of free trade. If the goods which America sends to England exceed in value those which she receives from England, it is evident that America is in debt to England; and that this indebtedness is due to the fact that she has borrowed capital from England, and that, in carrying on her foreign trade, she is largely employing English ships and English merchants. Such indebtedness cannot be an advantage, but must be a disadvantage to a country, and therefore, so far as it is due to protection, it may be considered as evidence of the injury inflicted on America by a policy of commercial restriction. There is also no circumstance connected with the present commercial position of the United States which should be regarded by the people of that country with more apprehension than the decline in her shipping trade which is shown by the large extent to which her foreign commerce is carried on in English ships and by English merchants. The protective duties which are imposed by the tariff of the United States on iron, copper, wood, and almost all the other materials which are employed in shipbuilding add so much to the cost of constructing a ship, that the shipping interest in the United States has declined to a most serious extent with the increase in recent years of her protective duties. It has already been stated that 70 per cent of the entire commerce of the United States is now carried on in foreign bottoms; whereas previous to 1860 between 75 and 80 per cent. of that commerce was carried in her own ships. Again, with

regard to the change which has lately taken place in the foreign commerce of France, it appears that whereas the French people used to send abroad more than was received back in return, they now receive more than they send to foreign countries: in other words, while France used to be in debt to foreign countries foreign countries are now in debt to her. So far as this alteration in her position is due to her Commercial Treaty with England, it will be scarcely denied that the existence of that Treaty ought to be a subject for congratulation rather than regret.

The statistics of the English exports and imports of bullion and specie during the last few years show in a very striking manner that a great excess of imports over exports may be entirely due to the circumstances before explained. Instead of there being any drain of money from England to adjust a so-called unfavourable balance of trade, the amount of bullion and specie which has been imported into England during the ten years from 1867 to 1876 has exceeded by no less than 53,800,000*l.* the amount which has been exported; although during this period the aggregate value of her imports exceeded by no less than 804,000,000*l.* the value of her exports. It therefore appears that so large an excess of imports over exports, as that which characterises the foreign trade of England, need not necessarily be accompanied by any drain of bullion or of specie; for during the period when this excess of imports has been most marked, England has on the average of years been adding about 5,000,000*l.* to her stock of bullion and specie, and this is supposed to be the amount which is annually required for fresh coinage and for various manufacturing purposes.[1]

In attempting to draw a favourable instead of an unfavourable conclusion as to the commercial position of England, from the fact that while there has been a considerable decline in her export trade, her imports have

[1] See *Statistical Abstract.*

rather increased than diminished, nothing is farther from my intention than to deny the existence of very severe depression in many important branches of industry. As this industrial depression is not unfrequently attributed to the policy of free trade which has been adopted by England, it is important to prove that far from protection being an antidote to industrial depression, protectionist countries such as the United States are not at the present time in a more satisfactory position than England. It sometimes however seems to be supposed that much darker days are in store for England, and that she has hitherto been able to ward off the worst consequences of bad trade by a series of artificial expedients, which can only be looked upon as temporary shifts. How, it is asked, can a nation, without burdening herself with debt, and laying up for herself a store of future embarrassment, continue to spend as much at a time when trade is bad, as when it was in a state of exceptional prosperity? The amount of goods imported into England shows no falling off; the people continue to purchase, even more largely than they did before, all the foreign products which minister either to their wants or to their enjoyments. It is generally admitted that the quantity of tea which is annually consumed by the English people affords a very correct index of the prosperity of the country. When there is a bad harvest at home there is naturally a large increase in the importation of wheat. When however it is found that there is a great addition to the quantity of tea which is imported and retained for home consumption, the conclusion is irresistible that the people can afford to spend a larger sum on an article which may be regarded to some extent as a luxury. The quantity of tea, which has been imported into England and retained for home consumption, has increased in a very striking manner since 1862. In that year the quantity so imported was 78,793,977 lbs.; in 1877, a year that is constantly spoken of as one of exceptional depression, the quantity was 151,114,886 lbs.,

or an increase of nearly 100 per cent. A part of this increase may no doubt be attributed to the fact that the duty on tea had been reduced between 1862 and 1877 from 1*s.* 5*d.* to 6*d.* a lb. It is however worthy of special remark, as bearing on the subject we are now considering, that the consumption of tea during the present period of commercial depression has continued steadily to increase, and that this consumption is now much larger than it was during the time when the trade of the country was in a state of the greatest activity. The years 1872-3-4 are frequently referred to as a time when English trade was at the zenith of its prosperity. The quantity of tea imported and retained for home consumption in these three years respectively was:—

1872.	1873.	1874.
127,661,360 lbs.	131,881,476 lbs.	137,279,891 lbs.

The present industrial depression is generally thought to have commenced in the closing months of 1874, and it increased in intensity throughout 1876 and 1877. Yet in these years, the annual increase in the consumption of tea was fully maintained; the quantity retained for home consumption being:—

1876.	1877.
149,104,194 lbs.	151,114,886 lbs.

No part of the increased consumption of tea which has taken place in these later years is due to a reduction of duty, for the duty has remained unchanged since 1866.

It may be thought that such a state of things as that just described cannot continue, and that if in a period of industrial depression a nation purchases more largely articles of general consumption, savings are either being used up or future liabilities are being incurred. The benefit which is conferred on a nation as a whole in a period of such exceptional industrial activity as that of a few years since is, I believe, by no means so great or so widely diffused as is

commonly supposed. It can, I think, be shown that such prosperity is accompanied by some very serious drawbacks; that the advantages which result from it are by no means diffused over the entire nation; and that although at such a time many are enriched, yet the additional wealth which they secure cannot be regarded as so much pure gain; a portion of it at least represents a forced contribution from some of their less fortunate fellow-countrymen.

Those who suppose that great industrial activity necessarily implies an increase of well-being to the entire community, may be asked to consider what was the effect on the nation generally of the extraordinary prosperity which was recently enjoyed by the coal and iron trades. A sudden increase in the demand for coal, consequent to a large extent on an increased demand for iron, produced an unprecedented rise in the price of coal, the rise being no less than 13*s.* 6*d.* a ton. It has been frequently asserted that this rise was chiefly brought about by the action of trades unionists, who, taking advantage of the increased demand for labour at a time when trade was exceptionally active, forced up wages to such a point that their employers were obliged to advance the price of coal in order to compensate themselves for the higher wages which they were compelled to pay. It has, however, been conclusively established that so small a portion of the increase in the price of coal was due to the cause just mentioned that a rise of 2*s.* 6*d.* a ton would have been amply sufficient to compensate the employer for the extra wages which he paid.[1]

[1] See Report of the Select Committee of the House of Commons appointed in 1873, to inquire into the causes which had produced the recent rise in the price of coal. From some evidence given before this Committee it appears that the rise in the price of coal was greater and the advance in the wages of the workmen less than above estimated. Thus, in a table given in the Evidence at page 191, it is stated that in the West Yorkshire district, between October 1871 and March 1873, there was an advance in the price of coal at the pit's mouth of 15*s.* 5*d.* a ton,

By far the greater part of the increased value which coal suddenly acquired must therefore be regarded as affording a source from which an enormous addition was made to the income obtained by the fortunate owners or lessees of coal mines. On every ton of coal raised there was at least an additional 11*s.* to be given either to the owner or to the lessee of the mine. Profits in this industry consequently advanced with unprecedented rapidity. The annual output of coal at the time was about 120,000,000 tons. Consequently the rise in the price of coal caused no less a sum than 66,000,000*l.* in a single year to be distributed among the owners and lessees of mines, whereas the amount distributed in the form of extra wages was not more than 15,000,000*l.* As the aggregate production and consumption of English coal is about 120,000,000 tons, it follows that the rise in price of 13*s.* 6*d.* a ton caused no less a sum than 81,000,000*l.* sterling to be taken in a single year from the consumers of this coal. As the export of coal from England at that time was not more than 12,000,000 tons, nine-tenths of this enormous sum, or about 72,000,000*l.*, had in this single year to be contributed by the consumers of coal in England. A portion of this amount was no doubt repaid to England by foreign countries. A rise in the price of coal increases the cost of all those articles in the manufacture of which coal is used. The price of such articles will consequently have to be advanced in order to compensate those who produce them. When therefore an article, the price of which is thus advanced, is exported, the burden of the extra price falls, not upon the English producer or merchant, but upon the foreign consumer. A part therefore of the loss which was caused to the consumers of English coal, no doubt fell not only upon those foreign

while wages in this period were advanced only 1*s.* 1½*d.* a ton. During this time the price of coal was raised on eight different occasions, while on only five occasions was there any rise in wages. In every single instance the rise in wages was subsequent to the rise in the price of coal.

countries which used English coal, but also upon the foreign consumers of various English products. When, however, the most ample allowance has been made for this circumstance, the fact still remains that so great a rise in the price of coal must have inflicted a most serious loss on the general body of the English people; the nature and extent of this loss have, I believe, not yet received adequate consideration.

Unprecedented as were the gains of the owners and lessees of coal mines, and important as was the addition made to the wages of those who were employed in these mines, yet it should not be forgotten that the advantage thus secured was to a great extent purchased at the expense of the general community. A rise in the price of coal must be just as severely felt by the people as if a first necessary of life were subjected to a heavy tax. It is an impost from which the humblest cannot escape. An income-tax may be so adjusted that the poor do not contribute to it, but in such a climate as that of England fuel is scarcely less essential than food; and no small portion of the enormous fortunes which were realised when the coal famine was at its height may be regarded as made up from the forced contributions of the very poorest in the land. The annual consumption of coal for household purposes, in England, is estimated at 20,000,000 tons. Consequently when coal rises 13*s.* 6*d.* a ton the English people have annually to pay 13,500,000*l.* more for the coal which is used for household purposes. An extra tax is thus imposed upon them not less in amount than half the interest on the National Debt. Such a tax, onerous though it is, represents only a portion of the heavy impost which is levied upon them by a rise in the price of coal. Such a rise must directly lead to the price of all those articles being advanced in the manufacture of which coal is employed. It has been calculated that it requires about 2½ tons of coal to smelt one ton of iron; consequently if the cost of the coal with which a ton of iron is

smelted is increased by 1*l.* 13*s.* 9*d.* there must be a corresponding addition to the price of iron. Every one therefore who wants to purchase any article of hardware will have to pay considerably more for it. Manufacturers and farmers will find machinery and implements materially increased in price; every steam-engine will also have to be worked at a much greater cost; and in order that the manufacturers may be compensated for these increased charges it will be necessary that the price of the articles which they produce shall be advanced. One result of the present industrial inactivity has been that the price of coal has been reduced to its former level; the country has consequently been relieved of a most serious burden. The advantage which has thus been gained by the general body of the people ought to be regarded as a not inconsiderable compensation for the losses which have undoubtedly been brought on certain special classes by the present depression of trade. It is well that the subject should be looked at from this point of view, in order that the fears of those may be allayed, who appear to be alarmed because the industrial depression from which the country is now suffering has not been more widespread in its effects, and has not exerted a more marked influence on the general condition of the country.

During the continuance of this depression, which has now lasted for four years, not only has there been no falling off in the demand for articles of general consumption, but there are other and more positive indications that the present industrial depression, severely as it has affected certain trades and certain localities, has not produced so great an effect upon the general condition of the country as is usually supposed. Until quite recently this industrial depression has been accompanied by a remarkable diminution of pauperism, and although during last year there was an increase in pauperism, yet even now the amount of pauperism is much less than it was in those years when the

country was said to be enjoying unusual prosperity. This is shown by the following table, which gives the number of persons, exclusive of vagrants, who were in receipt of parochial relief in England and Wales on the 1st of January in each year:—

1871	1,081,926
1872	977,664
1873	890,372
1874	829,281
1875	815,587
1876	749,593
1877	728,350
1878	742,703[1]

There has also been a similar decline during the same years in the pauperism of Scotland and Ireland.

The remarkable diminution of pauperism which is shown by the above figures, is no doubt partly due to an improved administration of the poor-law. Within the last few years there has been an increasing tendency to restrict out-door relief; and the decline in pauperism has taken place almost entirely through a reduction in the number of out-door paupers. But making the fullest allowance for this circumstance it is still very significant that during a period of great industrial depression, there has been an almost continuous decline in pauperism.

Other facts may be adduced which clearly indicate that the industrial depression, from which the trade of England is suffering, although it is most severely felt in certain localities, has not produced so great an effect as is commonly supposed upon the general condition of the country. In a period of wide-spread national distress there would inevitably be a marked diminution in the amount of Savings Banks deposits, accompanied by a considerable increase in

[1] Taking the latest figures, it will be found that the increase in the number of paupers between 1st January, 1878, and 1st January, 1879, amounted to about eight per cent. A large part of this increase was no doubt due to the exceptional severity of the winter in the latter year.

the sums withdrawn. Taking 1873 as a year of maximum trade activity, and comparing it with 1877, a year of severe depression, it is found that in 1877 the amount deposited in the Savings Banks was 19,373,009*l.*, and this amount exceeds by no less a sum than 2,151,033*l.* the amount deposited in 1873. The amount withdrawn in 1877 exceeded the amount withdrawn in 1873 by a sum almost exactly equivalent to the increase in the amount deposited. The considerable increase in the withdrawals from Savings Banks undoubtedly shows that there has been severe distress in certain localities; but the counterbalancing increase in the deposits proves that the capacity to save of the general body of the people has not been affected, and that the loss suffered by the working classes in certain localities has been accompanied by an improvement in their condition in other localities.

The traffic returns of the railways may be referred to as affording another proof that the inactivity in some special branches of trade has produced much less effect on the general condition of the country than is usually supposed. From the complaints that are constantly made about the stagnation of business it might be fairly concluded that there would be a serious falling off in the traffic returns of the railways. There has, however, been no such falling off. On the contrary, again comparing the years 1873 and 1877, it will be found that in the latter year the number of miles of railway open in England had increased, and that the gross receipts per mile had also increased from 4,139*l.* in 1873 to 4,215*l.* in 1877.

The facts which have just been quoted have not been brought forward with the intention of showing that depressed trade is no disadvantage to a country: the object I have had in view, is to point out that an exaggerated estimate is habitually made of the benefit which the nation derives from special branches of industry enjoying exceptional prosperity. A large portion of the additional wealth

which appears to be created when certain trades are unusually active, really represents no increase whatever in the aggregate wealth of the nation. It is simply a transfer of wealth from the general public to a special class: the few are enriched by the contributions of the many. When, for instance, it is now said that the coal trade is in a deplorable condition, it would be altogether erroneous to conclude that the production of coal has greatly diminished, and that less coal is being used than formerly. On the contrary, the production of coal has increased. In 1873, the year of maximum prices, 127,016,747 tons of coal were produced; in 1876,[1] a year of extreme depression, 133,344,766 tons of coal were produced. Within these three years there had been no doubt a great decline in the profits of the coal-owners, and a very considerable falling off in the wages of the colliers; but, on the other hand, the consumers of coal, representing the entire nation, enjoyed the great advantage of having to pay 13*s.* or 14*s.* less for every ton of coal they purchased. The community has been in fact relieved of a most onerous burden of many millions a year. Although, therefore, the coal-owners and those whom they employ are much less well-off than they were before, and must consequently reduce their expenditure, yet as what has been lost by them has been to a great extent gained by the rest of the nation, there is no reason why the amount which the nation can expend on articles of general consumption should diminish. This no doubt indicates one reason why, as previously shown, the consumption of articles in general use has not decreased; and why, throughout the continuance of the present depression, the import trade of the country has been so well maintained.

The remarks which have been made in reference to the coal trade apply to many other industries. The fall in prices has widely extended, and in every instance in which

[1] 1876 is the latest year given in the *Statistical Abstract* for 1878.

it has occurred it is equally true, as pointed out in regard to the price of coal, that a considerable portion of that which is lost by the producer is gained by the consumer. It is no doubt a serious disadvantage to mill-owners and operatives that cotton and woollen goods should not sell for as much as they did formerly; but, at the same time, the fact should not be lost sight of, that it is a great advantage to all the people who wish to purchase these goods, that they are able to buy them more cheaply than formerly. In discussions with regard to the effect on the country of a particular state of trade, attention is generally entirely concentrated on the interest of the producer; and the interest of the consumer is passed over almost unnoticed. The inflation of prices which occurs in a period of great activity inflicts a severe injury upon all that numerous class whose incomes are fixed in pecuniary amount. The annuitant, the fundholder, the person in receipt of a fixed salary, the numerous class whose wages do not vary with the state of trade, all these suffer severely when prices are forced up in a period of exceptionally active trade; their income or their earnings remaining the same, while almost everything they have to purchase is becoming dearer, they do not receive any compensation for the loss which is thus inflicted upon them. As they find that their incomes possess less and less purchasing power, it is no advantage for them to hear that certain persons, possibly the fortunate owners of a mineral monopoly, are becoming rich with unprecedented rapidity.

If a comparison is made between the prices of articles of general consumption in England in 1873 and 1878, it will be at once seen that there has been a fall sufficient to produce a not inconsiderable reduction in the cost of living. It is estimated that the cost of maintaining the household of an artizan is, on the average, from seven to eight per cent. less than it was five years ago.[1] It therefore appears that all

[1] See *Economist*, 20th April, 1878.

those who are in the receipt of fixed pecuniary incomes, whether these incomes are derived from investments, salaries, or wages, are decidedly better off than they were when the trade of the country was in a state of maximum activity, and when the nation was said to be enjoying unusual prosperity. The persons, who are in the position just described, constitute a numerous and important section of the community, and the addition which has thus been virtually made to their incomes enables them to become larger purchasers of articles of general consumption. An extra demand for these articles is thus created, which may counter-balance the falling-off in the demand of those who are employed in the trades which are specially depressed, and whose wages have consequently been considerably reduced. It is also to be borne in mind, that this fall in the prices of articles of general consumption, makes a reduction in wages less serious than it otherwise would be.

It would be scarcely appropriate, in discussing the subject of protection and free trade, to attempt to investigate all the economic phenomena associated with a period of commercial depression. I have, however, thought it desirable to consider those aspects of the subject to which attention has been here directed, because it is important to show whether, in periods of industrial depression, the effects which are produced by such depression, are more serious to a country which has adopted a policy of free trade, than they are to a country which maintains a system of protection. In view of the disappointment which is sometimes expressed, that after England has adopted free trade for thirty years, severe depression should have fallen on some branches of her industry, it becomes important to show that although the effects of this depression are more severely felt in protectionist than in free-trade countries, yet if the commerce of every country were as entirely freed from protective restrictions, as is the commerce of England, periods of depressed trade would

inevitably occur. The depression from which various branches of industry are suffering at the present time, may be regarded as the natural outcome of the prosperity which these same industries were enjoying a few years since. It is not more certain that night will follow day, or that winter will follow summer, than that a time of exceptional prosperity in trade will be succeeded by a period of corresponding depression. The extremely high profits which were realised by coal-owners and iron-masters five years since, have undoubtedly produced the low rate of profit which is returned to capital invested in these industries at the present time. Whenever any particular trade becomes exceptionally remunerative, people eagerly strive to share the advantages which that trade offers; a largely increased amount of capital is pressed into it; new mines are opened, or new works or manufactories are built, and the means of production are greatly extended. If the demand which originally created the exceptional activity is not permanently maintained, those engaged in the trade are in the position of possessing appliances for a great increase in the supply, at a time when there is either a diminution of the demand, or when there is no increase corresponding to the larger supply. The inevitable consequence is a rapid fall in prices, and a diminution in profits and wages, such as that which has taken place in all those industries which were most prosperous a few years since.

It has already been shown that the quantity of coal which is raised, and also the quantity at the present time used in England, are greater than they were five years since, when the price of coal was exceptionally high. The high prices which then prevailed, and the large profits which were then realised, caused many new mines to be opened, and the works in existing mines to be greatly extended. This particular branch of industry being thus much enlarged, an increased quantity of coal is annually raised; but as the circumstances which caused an excep-

tionally active demand for coal in 1873 are no longer in operation, the additional coal which is now raised cannot be sold except at a considerable reduction in price. Unless an industry becomes depressed in consequence of a permanent falling off in the demand, or in consequence of the demand being satisfied from some cheaper source, it is perfectly certain that the depression cannot permanently continue. When profits are exceptionally low, there is just the same inducement to contract a business as there is to extend it when profits are exceptionally high. In the present state of the coal trade, few new mines will be opened to take the place of those which are gradually being exhausted; the supply will thus become restricted, there will be a tendency for prices to rise, and a sudden increase in the demand may again produce a rise in prices as marked as that which occurred five years since, and thus exceptional prosperity and exceptional depression succeed each other in regular cycles. As an example, it may be mentioned that within the last fifty years there have been in the English cotton trade five periods of great prosperity, succeeded in each instance by periods of corresponding depression. The large returns which are yielded both to capital and labour in periods of prosperity should be regarded as exceptional. The employers and the employed in any trade should never fail to remember that the equalising force of competition is ever present to prevent an abnormally high rate of profits and wages being permanently secured by those engaged in any particular branch of industry. Consequently a portion of the remuneration which is secured both by capital and labour in a time of exceptional activity, should be regarded as a reserve, to compensate the employers and the employed for the reduction in profits and wages which will inevitably ensue.

There is therefore nothing connected with the present industrial depression in England, which can lead to the conclusion that it will permanently continue, and there is

certainly no reason to suppose that its effects could be mitigated in the slightest degree by the adoption of a policy of commercial restriction. It has in fact been shown from the statistics of pauperism, and other facts which have been adduced, that this depression has exerted very much less effect on the general condition of the country than is usually supposed. No circumstance has probably so much contributed to enable the country thus to tide over a period of bad trade as the reduction in the cost of living, which has resulted from the fall in the price of many articles of general consumption. When an article of general consumption is cheapened, the loss to the producer may be compensated by a gain to the consumer. Under a system of protection, however, there is no chance of bringing into operation such an influence to neutralise the consequences of depressed trade. An exactly opposite course is pursued, for by increasing the price of various commodities, through the imposition of protective duties, the cost of living is increased, and the general consumer is taxed in order to benefit the producer. In the United States, import duties are imposed on no less than 2,000 different articles. In England every article that is imported, except seven or eight, is admitted to her ports duty free. It has consequently happened that at a time when there has been a reduction in the cost of living in England, it has been so much increased in the United States by the imposition of protective duties, that the American labourer with higher wages is scarcely so well off as is the English labourer with lower wages, and workmen are in large numbers leaving the United States in order to return to England. From all the facts which can be most relied upon as showing the general condition of a country, it may be concluded that the present industrial depression has been more severely felt in the United States, than it has been in England. Throughout the continuance of this depression there has been an almost continuous

decline of pauperism in England. Her people purchase an increased quantity of articles of general consumption; the traffic returns of her railways are maintained; and the amount deposited in the Savings Banks has increased. In the United States, on the contrary, there has been, during the same period, a steady increase in pauperism and destitution. Thus, in the State of Massachusetts, the number of vagrants has so largely increased, that whereas 43,000 were relieved in 1873, the number in 1876 was not less than 148,000. Whilst the traffic returns of the English railways have been maintained, the American railways have had to bear such disastrous losses, that in 1876 and 1877 no fewer than eighty-four railways, covering[1] 7,721 miles, were sold under foreclosure. Industrial depression has produced such widespread distress in the United States, that labour disputes have induced the workmen to make socialistic demands, such as, for many years, have scarcely been heard of in England. The people of America, having been long accustomed by the system of protection to look to the State for aid in their industry, not unnaturally seek State assistance in a time of trade depression; and demands which may assume a serious communistic development have been made by unemployed American workmen, that the municipal authorities should find work for all applicants.

In a petition which was last year signed by some of the leading merchants and manufacturers in the United States, to the Senate and the House of Representatives, in favour of unrestricted trade, it is stated that there was at the time "unspeakable distress" among the working classes in America. It is also said, "Pauperism and crime increase daily within our borders; skilled mechanics tramp the country over in vain search for the means of living; and instances are not lacking where some of our best artizans have been induced to leave our shores to accept

[1] See Paper read by A. J. Mundella, Esq., M.P., before the Statistical Society of London on February 19th, 1878.

the so-called 'pauper wages' of other countries. . . . A day's labour in England will purchase from twenty-five to thirty per cent. more than a day's labour in the United States."

The accuracy of this description of the condition of the United States will not be, I believe, disputed. When it is remembered that the unequalled natural resources possessed by that country ought to make her the most prosperous in the world, it becomes abundantly clear that the maintenance of a system of protection to a great extent paralyses the efforts of a people to meet the difficulties which have to be encountered in those periods of depression, which are apparently inseparably associated with the industrial system of every country in which capital and labour actively compete for remunerative employment.

In attempting to show the effects produced on a free trade, and a protectionist country, respectively, in a time of industrial depression, a comparison might be made, not simply between England and the United States, but between England, Germany, Russia, and other countries, where a policy of commercial restriction is still maintained. I have, however, been induced to contrast the present condition of England and the United States, because in Russia and Germany, for instance, other circumstances are in operation which are independent of tariffs, and which materially affect the industrial condition of those countries at the present time. Russia has lately had to bear the strain of a costly war; and there can be no doubt that the military system which is maintained in Germany, and in other Continental countries, exerts a most important influence on their industrial economy. Not only are the resources of these countries severely taxed by their enormous armies, but even a more serious loss is inflicted on them by the conscription, which draws away from industrial pursuits a large proportion of their population at the very period of life when they could render to the nation the most valuable services as

productive labourers. Men have to devote themselves to military training, and to learning military manœuvres, at the time when they are best fitted to acquire skill in some handicraft. It is scarcely possible to over-estimate the direct and indirect loss which is thus inflicted on a community. Taking the last figures accessible,[1] it appears that the following is the strength, on a peace footing, of the armies of the five chief European Powers :—

Germany	419,000
Austria	267,000
Russia	765,000
France	430,000
Italy	199,000
TOTAL	2,080,000

These five Powers consequently have to bear, even in a time of peace, the enormous burden of maintaining more than 2,000,000 men in arms. Not only has the direct cost of their maintenance to be borne, but this vast number of men, in the prime of life, are drawn away from industrial pursuits. In order, however, to form an adequate idea of the loss caused to these countries by this rivalry in military armaments, which was inaugurated with the advent of the Second Empire in France, it is necessary to bear in mind that so large a proportion of the entire population have to spend some of the best years of life in military training, that these armies, immense though they are in time of peace, can be immediately trebled and quadrupled if it is decided to place them on a war footing. In face of such facts as these, I feel that it would be unfair to make a comparison between the present industrial condition of Germany and England, and attribute the greater industrial depression which prevails at the present time in the former country to the policy of protection which she so zealously maintains. It could be easily shown that the depression in her trade,

[1] See *Statesman's Year-Book*, 1879.

and the widespread distress which prevails amongst her workmen, are most materially aggravated, as is the case in the United States, by the system of commercial restriction which she so tenaciously supports; but it cannot be denied that this depression and this distress are at least as much due to the perpetual incubus which is imposed upon industrial development by such a military system as that which is, at the present time, maintained in Germany and other Continental countries.

CHAPTER VI.

COMMERCIAL TREATIES.

THE opposition which is at the present time offered to the negotiation of commercial treaties, has undoubtedly caused great surprise and disappointment to the advocates of free trade. When the commercial treaty, between France and England, was negotiated, it was confidently anticipated that through the agency of such treaties a very powerful stimulus would be given to the progress of free trade. Although the Anglo-French Treaty has benefited the trade of the two countries to a far greater extent than was expected, yet the opposition to the treaty has so much increased in France that its renewal now appears to be extremely doubtful. A similar hostility to commercial treaties is shown in other countries; and it cannot be denied that the negotiation of these treaties will now meet with much more formidable difficulties than had to be encountered a few years since. It therefore becomes important to inquire how this change of opinion has been produced, and whether it is due to causes which should in the slightest degree make England waver from the policy of complete free trade which she has adopted.

In a period of industrial depression any circumstance which is prominently connected with the commerce of a country, is sure to be singled out as one of the chief causes by which this depression has been produced. In the United States bad trade is making many, who once placed implicit

faith in protection, doubt its efficacy; and in England, where in prosperous times there was an unanimous approval of free trade, the opinion is now not unfrequently expressed that we have carried out a policy of commercial freedom almost too thoroughly and too precipitately. France has not escaped the industrial depression which at the present time exists in other countries; and wherever a trade, which has been affected by the treaty, happens to be suffering from this depression, those who are engaged in it fasten on the treaty for special denunciation. The opposition therefore which is now shown to the renewal and negotiation of commercial treaties, is no doubt partly due to the prevailing industrial depression. It is also to be borne in mind that a commercial change, however great may be the advantage which it confers upon the community as a whole, can rarely be introduced without causing some loss to certain special classes. The benefit which is diffused over the rest of the nation is little spoken of. The million may gain by finding some article of general consumption cheapened. They accept the boon without either recognising, or taking the trouble to ascertain, the source from which it comes. The many who are benefited are silent; the few who are injured are ceaseless and clamorous in their complaints.

Between 1858, just before the negotiation of the Anglo-French Treaty, and 1877, the imports from France to England have increased from 13,271,000*l.* to 42,360,000*l.*, and the exports from England to France from 9,242,000*l.* to 22,960,000*l.* This great increase in the trade between the two countries shows that the French and the English obtain from each other, respectively, a larger quantity of commodities which could not be obtained at all unless they were imported, or which can be imported at a cheaper rate than they can be produced at home. In thus opening the French market more freely to the English, and the English market more freely to the French, it may no doubt have happened that the demand for some particular article may

have been reduced in consequence of the home demand for it being diminished. Thus in 1858 the amount of silk manufactures, and silk imported from France into England was only 2,300,000*l.*; it was 9,800,000*l.* in 1875. Although it appears from these figures that the English purchase a greater quantity of French silk than they did before, it does not necessarily follow that less silk is in the aggregate manufactured in England. The home and foreign demand for an article may both be so much increased that a larger importation may be accompanied by a considerable augmentation in the home production. Thus the value of woollen cloth and yarn imported into France just before the Treaty in 1859 was 100,000*l.*; the value exported in the same year was 7,000,000*l.* Thus the value of these goods exported exceeded that imported by 6,900,000*l.* After the Treaty had been in operation for sixteen years, the value of the woollen cloth and yarns imported into France, had increased to no less an amount than 3,700,000*l.* But in the same time, the value of these goods exported from France had increased to 14,000,000*l.* It therefore appears that although the French woollen manufacturers complain more than any other class of traders of the injury that has been inflicted upon them by the increased importation into France of woollen goods from England, yet at the very time when this increased importation has been taking place the French woollen manufacture has been developed to a remarkable extent; for the figures just quoted show that during the time the Treaty has been in operation, an increase of the import of woollen goods of 3,600,000*l.* has been accompanied by an increase in the export of no less than 7,000,000*l.* The amount, therefore, by which the export of woollen goods has increased, exceeded by nearly 100 per cent., the amount by which the imports have increased. Such facts as these are persistently ignored by the French protectionists who oppose the renewal of the Treaty. They constantly refer to the additional quantity of manu-

factured articles imported from England, as if each bale of woollen or cotton goods sent from England to France necessarily caused a corresponding decrease in the quantity of these goods manufactured in France. The depression in the woollen trade in France cannot be produced by foreign importation, when there has been so great an increase in her export of woollen manufactures. This depression has undoubtedly been brought about by causes analogous to those which have produced depression in England and other countries; it simply represents one of those vicissitudes or reactions to which every trade is liable.

The opposition which is being offered in France to the renewal of the Commercial Treaty with England, has been assisted by another circumstance to which it is desirable to direct attention, because it affords an instructive example of the influence which economic fallacies, which are generally supposed to have been long since exploded, can still exercise on public opinion. There is no single point on which greater stress is laid, by various chambers of commerce in France, that have been most prominent in opposing the Treaty, than the change which has lately taken place in the relative amount of French exports and imports. For some years previous to 1876 the exports from France exceeded her imports. The average annual amount of this excess was about 9,000,000*l.* In 1876 the balance was turned in the opposite direction; for, in that year, the value of the produce imported into France exceeded the value of that exported by 16,000,000*l.* This change in the condition of her trade seems to have created great alarm; the fear is widely expressed that France is being drained of her resources, and the Commercial Treaty is consequently the more strongly denounced because it is considered to have been instrumental in producing this "unfavourable balance of trade." No trustworthy conclusions with regard to the industrial position of a country can be drawn from her

trade statistics of a single year. This excess of French imports over exports may be due to accidental and temporary circumstances; but if it should continue to be a permanent feature of the trade of France in the same way as it is of that of England, it would follow, as was shown in the last chapter, that there had been a marked improvement in the condition of France: that whereas formerly she was so much in debt to foreign countries that each year she had to send a considerable amount of produce abroad in order to liquidate this indebtedness, these countries have become so much indebted to her, her wealth has in fact so much increased, that, besides receiving payment for the goods she exports, there is annually due to her a surplus amounting to many millions.

When it is thus seen that the renewal of the Treaty is opposed on so many different grounds, it may not improbably happen that an attempt to negotiate another treaty between France and England will fail. If this should be the case there are many of our own countrymen who will no doubt think that England should depart from the policy which she has been pursuing, that she should take some steps to defend her own interests, and that she should no longer continue, as is so often said, "to give everything to foreigners and get back nothing from them in return." If France, refusing to renew the Treaty, should increase the duties on English products which were reduced at the time the Treaty was first negotiated, there are those who maintain that England should in turn impose heavier duties on the articles which she imports from France. Such a policy of retaliation has already been recommended by many English chambers of commerce. Although the undoubted right of England, under such circumstances, to increase the duties levied on French products, may be fully admitted, yet the important question to be determined is, not whether it would be justifiable, but whether it would be expedient for England to pursue such a course. It cannot be denied that

a country which has carried out a free-trade policy with thorough completeness is not in a favourable position to bring pressure to bear upon another country to accept a commercial treaty. If in England it were believed that an advantage would be derived from the imposition of a protective duty, we should then be able to propose to compensate ourselves by the imposition of such a duty, for any injury that France might inflict on our trade by increasing the duties on English goods imported into France. A protectionist country is obviously in a much better position to negotiate a commercial treaty than one that has adopted a complete free-trade policy. France knows that she might, for instance, raise all her import duties to the point at which they stood before they were reduced by the Treaty, without incurring any real risk that England would, in order to retaliate upon her, depart from the principles of free trade and impose protective duties on French products. The import duties which are imposed by the tariff of the United States are far higher than those which were levied in France before the Treaty; and yet, as previously explained, we are absolutely powerless to retaliate upon the United States for the very serious injury which her tariff inflicts on English trade, without such a policy recoiling with disastrous effect upon ourselves. It would be possible by the imposition of a high protective duty, on some article which is largely imported into England from the United States, to make the people of that country suffer a loss, similar to that which is inflicted on England by the maintenance of their protective tariff. More than three-fifths of all the produce which is exported from the United States is sent to England; and the trade of America might be very seriously crippled if she were excluded from the English market by a system of protection similar to that with which she prevents other countries obtaining free access to her own markets. But serious as is the harm which might thus be done to the United States, it is trifling compared with the disastrous

consequences which would be brought upon England, if we imposed protective duties with the object of impeding the importation of American produce. It has been clearly shown, by the statistics of American trade, that in order to retaliate upon her with any effect it would be necessary to levy protective duties either on articles of general consumption, or on products which represent the raw material of our most important branches of manufacturing industry. By thus making the food of the people dearer, we should cause ourselves, as a nation, an amount of loss and inconvenience compared with which the disadvantage to America which would result from the diminution of her export trade would be trifling. Again, by artificially raising the price of cotton and other products, which form the raw material of some of our leading industries, their very existence might be imperilled.

It may, however, be thought that the position of American trade is exceptional, and that our imports from no other country consist to so large an extent of food and raw material. Such articles of manufacture as silks, cottons, and woollens are imported to a very considerable amount into England from France, and as many of these articles come into direct competition with the products of English industry, it may be supposed that although we are precluded by the nature of our trade with the United States from pursuing a policy of retaliation towards her, yet we might with advantage impose duties on French manufactures, if France, refusing to renew the Commercial Treaty, subjects English trade to new restrictions. Such a proposal has already met with considerable support from several English chambers of commerce; and it has been suggested that if the treaty is not renewed, the English Government should be asked to impose duties on silks and other articles of French manufacture. It therefore becomes important to consider what would be the result of carrying out the policy thus indicated.

The value of the manufactured silk annually imported into England from France is about 6,000,000*l.*; and this importation would no doubt be considerably reduced if an import duty of 10 per cent. were imposed. Let it be assumed that this duty is a general one, and is levied on all manufactured silk from whatever country imported. The only effect of attempting to confine such a duty to French silks would be that the purpose of the duty would be almost entirely defeated. Nothing would be more easy than for the French manufacturer to send his silks, in the first place, to another country, prior to their exportation to England, and thus secure their entrance into the English market duty free. If the duty were imposed on all foreign silks, the price of these would be increased in the English market by somewhat more than the amount of the duty. The foreign manufacturer would thus be placed at a disadvantage in the English market, compared with the home manufacturer; and the English people would purchase a larger quantity of English silks and a less quantity of foreign silks. The price of silks in the English market, whether of foreign or of home manufacture, would be increased. The advance in the price of the former must be sufficient to compensate the foreign manufacturer for the duty which he now has to pay. The rise in the price of English silk could not permanently be of any advantage to silk manufacturers or their operatives, because, as has been so frequently shown, the competition of capital and labour, seeking remunerative employment, prevents the continuance of an abnormally high rate of profit and wages in any special industry. An increased amount of capital and a greater proportion of the labour of the country would be employed in the silk trade; but after the trade had settled down to its regular condition, a larger return could not be yielded to this capital and labour than is yielded in other industries. With regard to the interests of the consumer, as distinguished from

those of the producer, it is evident that every one who had to purchase silk, would have to pay a higher price for it. This extra price would, however, only represent a part of the loss to the general consumer. French silks are not always purchased in England on account of their greater cheapness; they are often preferred because they are considered to be superior in colour, and are more attractive in other respects. Without desiring to express any opinion as to whether this preference is well-founded, it is obvious that if a protective duty were imposed, those who wished to buy French silks would be fined, because they preferred them to silks of English manufacture. It therefore follows, as is the case with all taxation imposed with the object of protecting home industry, that the amount which the taxation yields to the revenue of the State, very inadequately represents the loss and inconvenience which are caused to the general community.

A more serious objection, however, against imposing a duty on some article of French manufacture, with the view of punishing the French for refusing to renew the Commercial Treaty, arises from the fact that if such a policy were once commenced it is impossible to foresee the extent to which it might not be developed. It may, for instance, be said that silk is a luxury; and that there could be no very great hardship if those who purchased such a luxury had to pay a somewhat higher price for it. If we could impose a duty on French silk, and then stand still, little harm might possibly result. But every trade in England which is injured, or which supposes itself injured, by foreign competition, would immediately set up a claim for legislative protection. The very first bale of cotton goods that might be sent from America to England, after the silk manufacturer had obtained protection, would inevitably unite the whole cotton interest in Lancashire to demand that their trade should enjoy a similar security against foreign competition. Parliament would be petitioned, deputations would wait

upon the Government, and an amount of political influence would be brought into activity which there would be no chance of successfully resisting. It is almost impossible for a country to depart, however slightly, from the principles of free trade, without rendering a further departure inevitable. From each step that is taken in the paths of protection, increasing momentum is acquired, which will hurry a country on still farther in a policy of commercial restriction.

As it appears therefore to be impracticable for a country to resort to retaliatory import duties, unless it is prepared to sanction an indefinite extension of protection, it may be desirable to consider whether greater success would attend the imposition, as has been often proposed, of an export duty on some article for which there is a demand in those countries to whose markets free access for English goods is denied. There are many, for instance, who consider that it would be highly advantageous for England to impose an export duty on coal. It is supposed that through such a duty we might obtain a considerable revenue from foreign countries; and it is also thought that the possible increase of the duty might be kept as a weapon in reserve, which might be used to threaten foreign countries, if they subjected our commerce to increased restrictions. It is thus said that nothing would probably exert a more powerful influence in preventing the French increasing their duties on English goods, than if they could be told that from the very moment they increased these duties we should compel them to pay a higher price for every ton of English coal they purchased. It can, however, be easily shown that it is rarely, if ever, possible to impose an export duty without producing consequences, and incurring risks, which, at the time the duty is imposed, are not foreseen. As an example, it may be mentioned that when the Anglo-French Treaty was discussed in the English Parliament, a considerable amount of support was given to a proposal to levy an

export duty on coal. It was then very generally thought that England possessed such advantages in the production of coal, that the imposition of a moderate export duty would scarcely affect the foreign demand for English coal. In thus compelling foreigners to contribute to our revenue, whilst no injury was done to any branch of our own trade, it was argued that we should be partly compensating ourselves for the loss inflicted upon us by the commercial restrictions of other countries. From events which are now happening, it appears that if such an export duty had been sanctioned, foreign countries would gradually have ceased to purchase coal from us, and would have obtained it from other sources. Thus, a certain quantity of American coal is at the present time being sent to Europe; and it is confidently anticipated by the people of the United States that they will be able in future greatly to extend this trade. It may, therefore, with certainty be concluded that if the export of coal from England had been burdened with a duty, we should soon have entirely lost the foreign market for our coal. In a period of depressed trade like the present, the maintenance of such a duty would be impossible. There has been a great diminution in the profits of the proprietors of coal-mines; their workmen are suffering great distress in consequence of the reduction of wages to which they are obliged to submit; and it would be felt that there could be no justification whatever for adding to the difficulties which have thus to be encountered, by continuing to maintain a duty which, though it might yield nothing to the state, would have the effect of destroying the foreign demand for English coal.

Equally serious objections apply to every proposal which has been made for the imposition of a retaliatory export duty. Thus it has been suggested by some economists of authority, that with the object of benefiting our manufacturers, it would be desirable to impose an export duty on English machinery. Various foreign countries, it is said,

which restrict the importation of our goods by protective duties, employ English machinery, to a large extent, to manufacture articles which compete with the products of our own industry; and in this way we supply the weapons of our own discomfiture. But if such a duty had been sanctioned it would, like an export duty on coal, have led to consequences which at the time of its proposal were not anticipated. Although at one time the machinery which foreign countries imported was chiefly obtained from England, yet there was nothing to warrant the conclusion that these countries must always necessarily look to England for the mechanical appliances which their own industry did not supply. We possess neither a monopoly of inventive skill, nor a monopoly of the iron, copper, and other materials from which machinery is constructed. The American people are at least as inventive as ourselves, and with their inexhaustible mineral resources, there is no reason why machinery of American manufacture should not be as cheap and as good as machinery made in England. It would therefore be impossible to impose an export duty on English machinery without greatly diminishing the foreign demand for it, and we should thus inflict a very serious injury on an important branch of English trade with no other result than compelling the French, the German, and the American manufacturers either to purchase their machinery from their own countrymen, or instead of buying it from England, to import it from some other country. This falling-off in the foreign demand may, however, be regarded as representing only a part of the harm which might be done by such a duty. With the gradual diminution of the foreign demand for English machinery, an important stimulus to enterprise and invention would cease to operate. Nothing is so likely to secure constant watchfulness to introduce every possible improvement into machinery, as the knowledge that in foreign markets we shall have to contend with the keen and active competition of other countries. It might also

happen that if there were any discouragement to mechanical invention in England, foreign machinery might be more largely employed in our own industry, and thus a double disadvantage would result: for there would be a decline not only in the foreign, but also in the home demand for English machinery.

As therefore it appears to be impossible for England, without inflicting upon herself very serious injury, to impose either import or export duties with the object of bringing pressure to bear on those countries which refuse to arrange commercial treaties with her, the question will no doubt be asked: "Can nothing be done?" It is, for instance, often said that it cannot be right for England to pursue a policy of passive indifference, and to continue to adhere strictly to the principles of free trade, when on all sides her proposals for commercial treaties are rejected, and when her access to foreign markets is being barred by more onerous restrictions. To the inquiry: "What ought under these circumstances to be done?"—it seems that we are irresistibly led to the conclusion, that, however much we may be prompted by a natural feeling of annoyance and disappointment to adopt retaliatory measures, we cannot by any possibility enter upon such a course of retaliation, without greatly aggravating instead of mitigating the mischief which is done to our trade by the protectionist tariffs of other countries. It has been shown that whether it be by the imposition of protective duties on the goods which we import from these countries, or by the levying of an export duty on the products which they purchase from us, England cannot carry out a policy of retaliation without very seriously imperilling her own industrial interests. Nothing would give more encouragement to foreign protectionists than the slightest departure on our part from the principles of free trade. Such a departure would be welcomed as an omen that we had at last found it necessary to secure our industry against the evils of foreign competition. If, however, we are firmly

resolved not to be drawn by any provocations, great though they may be, from a policy of commercial freedom, events will again and again occur which we may confidently anticipate will gradually bring conviction even to the staunchest supporters of protection, that the policy we thus maintain is not less just to others than beneficial to ourselves. Circumstances connected with the present industrial depression are undoubtedly giving a powerful assistance to the cause of free trade. So long as prosperous times continued, wealth was so rapidly accumulated in the United States, that the American people could hardly be expected to take much heed when they were told that if protection were abolished their country would become even still richer. Now, however, when this prosperity has temporarily passed away, and wide-spread distress prevails, every cause that may have heightened this industrial depression is inquired into with anxious solicitude, and the wisdom of maintaining restricted tariffs is now doubted by many who, until recently, were their most unhesitating supporters. Two or three years ago, protection seemed to occupy a far more unassailable position in the United States than in any other country. The comparative ease with which a period of industrial depression has been tided over in England, contrasted with the serious consequences which it has brought upon the United States, has caused so important a section of the American people to look with favour upon free trade, that it seems not improbable that the principles of unrestricted commerce will gain ground most rapidly in the country where protection has hitherto held its strongest position.

As affording some compensation for the loss and inconvenience that may be caused if the French refuse to renew the Commercial Treaty with England, it should be remembered that great as are the advantages which result from such a Treaty, they are accompanied by at least one important disadvantage. When certain fiscal arrangements are entered into between two countries which are to remain

in operation during a fixed number of years, it is evident that throughout the continuance of this period, the freedom of each country to introduce changes in its tariff is somewhat curtailed. Thus by the Anglo-French Treaty, it was stipulated that only certain defined duties should be levied upon French wines imported into England. Some event might have occurred, such, for instance, as a prolonged and costly war, which might have made it necessary for England to have raised additional revenue by indirect taxation. If this had been the case, the Treaty stipulations into which she had entered would have virtually prevented her obtaining any portion of this additional revenue by increased taxation on alcoholic drinks. Although it appears from the interpretation usually given to the terms of the Treaty, that if the duty on home-made spirits were increased, it would be possible to levy an equivalent increase of duty on spirits imported from France and other foreign countries, yet we should have been precluded from imposing an additional duty on French wines, because the Treaty only permits the duty on French products to be increased when this additional duty can be counterbalanced by a corresponding addition to the excise duty which is imposed on the same article when produced in England. The French have complained that their wines, even under the Treaty, are more heavily taxed than English beer, and we have met these complaints by affirming that French wine does not come into direct competition with beer. The same argument would have been used against us, if we had attempted, in apparent contradiction to the provisions of the Treaty, to increase the duty on French wines. If, however, an addition had been made to the duty on malt and spirits, while the duty on French wines remained unaltered, it would have been at once objected that malt and spirits were unfairly taxed: not only the consumers of these articles, but English farmers, brewers, and distillers would have been able with justice to urge, that they would be placed

at a disadvantage, and that the growers of French wines would enjoy protection at the expense of English traders, if no addition were made to the duties levied on French wines. Again, if the duties were increased on all foreign wines except those which were imported from France, all the other wine-producing countries would have felt that they were unfairly treated, and they would not improbably have retaliated by subjecting English commerce to special restrictions. It seems that at the present time, we incur some risk of bringing such a spirit of retaliation into activity, in consequence of the agreement which we made with France, as to the particular amount of duty which should be levied on her wines." It is alleged by Spain that our duties are so adjusted as to place many wines which she produces at a disadvantage in the English market. The feeling that she has thus been unjustly treated, has prompted her to impose higher duties upon various products imported from England, than upon the same products imported from other countries. By the Anglo-French Treaty it was arranged that the duty imposed on foreign wines imported into England should vary with their alcoholic strength. The duty on wine of less than twenty-six degrees of alcoholic strength is 1*s.* per gallon; on wines possessing an alcoholic strength between twenty-six to forty-two degrees the duty is 2*s.* 6*d.*; and on wines of greater alcoholic strength still higher duties are imposed. It is alleged by Spain that the sudden leap in the duty from 1*s.* to 2*s.* 6*d.* subjects her to a special injustice; for it is maintained that the majority of the light wines of France possess less than twenty-six degrees of alcoholic strength; and therefore they can be imported at the minimum duty of 1*s.*; whereas a great many of the light wines of Spain possessing an alcoholic strength slightly exceeding twenty-six degrees, are compelled to pay the comparatively high duty of 2*s.* 6*d.* per gallon, and are thus virtually excluded from the English market. Without expressing a positive opinion as to the justice of these

complaints, belief in them is so general in Spain, that the Government of that country was recently induced so to frame its budget as to place English commerce at a special disadvantage. Such an occurrence shows how important it is that a country which desires, in accordance with the principles of free trade, to place the goods of all other countries on an equality in its own markets, should not, in order to facilitate the negotiation of a commercial treaty with any particular country, admit its goods on exceptionally favourable terms.

A consideration of the causes which at the present time retard the negotiation of commercial treaties, may be concluded by referring to one circumstance, which is supposed by some not only to impede the acceptance of these treaties, but also to give encouragement to the supporters of protection in foreign countries. It has lately been frequently asserted by many who are engaged in one of the most important of English industries, that it is vain for us to expect other countries to adopt the principles of free trade while we sanction the continuance of a protective duty in a dependency whose financial arrangements are directly under our control. It has been urged with much persistency that the 5 per cent. duty which is imposed upon cotton goods imported into India, being a protective tax, ought at once to be repealed by the authority of the English Parliament, and that as long as the duty is permitted to remain, a national sanction is given on the part of England to protection. The subject has lately excited an unusual amount of attention; because within the last few years many large cotton-mills have been erected in Bombay, and as some of the cotton goods which are imported into India, are of the same kind as the goods which are manufactured in these mills, it is evident that the Bombay manufacturers enjoy a protection of 5 per cent. on all the products they make which are similar in character to those imported. All the economic objections which can be urged against any protective duty

of course apply to this particular tax. The price not simply of those cotton goods which pay the duty is raised, but the duty causes the price of those goods which are made in India to be also raised; consequently the tax takes from the people of India an amount far exceeding that which it yields to the State. The tax therefore, like every other tax which is protective in character, must be, on economic grounds, unhesitatingly condemned. The subject, however, cannot be regarded as one involving simply economic considerations. It would scarcely be appropriate here to discuss the question in its political bearings, but it is perfectly obvious that the control which it is just and wise for the English Parliament to exercise over the taxation of any of its dependencies, involves political considerations of the first importance. A more serious error can scarcely be committed than to impose taxation on a people regardless of their feelings and their sentiments. The most equitable system of taxation which it is possible to devise for one country, may be altogether unsuited to other countries. Many financiers of authority who consider that the income-tax ought to be permanently maintained in England, are of opinion that in consequence of the many abuses which are inseparably associated with the collection of the income-tax in India, nothing but extreme necessity could justify its re-imposition in that country. In deciding whether the duties now imposed on cotton goods imported into India, ought at once to be repealed, it is of the first importance to bear in mind the peculiar and critical position of Indian finance. The great mass of the people of that country are so poor, and live with such extreme frugality, that with the exception of salt there is no article of general consumption which it is possible to tax; and the duty on salt has been strained to its utmost point, being one of the heaviest duties ever imposed on a first necessary of life. As therefore there remains no article of general consumption which can be taxed, it is obvious that

the resources of taxation are extremely small in India; for it is scarcely necessary to remark that the taxation which is most productive is that which is levied on some article in universal use, to which therefore the whole nation has to contribute. In recent years the expenditure in India has steadily and surely increased; her revenue has advanced far more slowly; frequently-recurring deficits have had to be met by borrowing; and her debt has been constantly augmented. Her financial position has been still further embarrassed by the recurrence within the last eleven years of no less than four famines, the cost of the last two of these famines reaching the sum of 16,000,000*l.* Under these circumstances no existing source of revenue can with prudence be surrendered; and therefore the proposal to abolish the existing import duties on cotton goods cannot be dissociated from the question: What new taxation is to be imposed to fill the void in the revenue which the repeal of these import duties would create? Hitherto those representatives of the English manufacturing interest who so strongly condemn these duties, have not recommended any other taxation to take their place, and no new tax has been suggested which would not be either far more burdensome, or far more disliked by the people of India themselves. If by greater economy or by better administration, the expenditure of India were reduced, a sufficient surplus might be provided to enable these import duties to be repealed. But this greater economy and better administration ought to be ensured before the revenue which these duties yield is relinquished.

Many of those who have taken a prominent part in advocating the repeal of these cotton duties, have undoubtedly been prompted by a sincere dislike to England being either directly or indirectly concerned with the maintenance of any form of protection. In urging, however, the immediate repeal of this protective duty, it should be remembered that many English colonies maintain a

system of protection far more extended and far more onerous in its character. If no attempt is made to interfere with the colonies, while it is insisted on the part of England, regardless of the wishes of the Indian people, that a particular duty which is imposed in that country shall be repealed, the impression will not unnaturally be produced that India is unfairly treated, and that she is sacrificed to the interests of English manufacturers. Such a feeling no doubt already exists in India; and it has been much intensified by the manner in which the question of the repeal of these duties has been advocated in England. The subject is habitually treated from the English rather than from the Indian point of view. The injury which is done to English trade by a restrictive duty is brought prominently to the foreground, and comparatively little notice is taken of the most cogent objection to be urged against this and every protective tax,—that it takes from the people on whom it is imposed an amount which far exceeds that which it yields to the revenue of the State. In the appeals that are so often made that the Indian cotton duties should be abolished, in order that England may consistently maintain her adherence to the principles of free trade, the mistake which may be regarded as the cardinal error of the protective system, is not unfrequently committed:—The interest of the manufacturers, as producers, is considered; the interest of the people, as consumers, is ignored.

THE END.

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